HARVEY PUBLIC SCHOOL DISTRICT
HARVEY, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Position-Modified Cash Basis	3
Statement of Activities-Modified Cash Basis	4
Balance Sheet - Governmental Funds - Modified Cash Basis	5
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position-Modified Cash Basis	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	7
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with the Government-Wide Statement of Activities - Modified Cash Basis	8
Statement of Assets and Liabilities - Fiduciary Funds - Modified Cash Basis	9
Notes to the Financial Statements	10
SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - General Fund - Modified Cash Basis	30
Note to the Supplementary Information	31
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*	32
Schedule of Findings and Responses	34

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the President and Board Members
Harvey Public School District
Harvey, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Harvey Public School District, 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 modified cash basis financial position of the governmental activities and each major fund of the Harvey Public School District as of June 30, 2018, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Harvey Public School District's basic financial statements. The budgetary comparison information on page 30, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 it. Management has elected to not report the management's discussion and analysis.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Harvey Public School District's 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 Harvey Public School District's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

February 6, 2019

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 2,148,092
Investments	626,099
Total current assets	2,774,191
Non-current assets	
Capital assets	4,543,317
Less: Accumulated depreciation	(2,626,017)
Total capital assets	1,917,300
Total assets	4,691,491
LIABILITIES	
Current liabilities	
Special assessments, due within one year	2,098
Total current liabilities	2,098
Non-current liabilities	
Special assessments, due in more than one year	35,252
Total non-current liabilities	35,252
Total liabilities	37,350
NET POSITION	
Net investment in capital assets	1,879,950
Restricted for:	
Capital projects	646,818
Special revenue	295,754
Unrestricted	1,831,619
Total net position	$ 4,654,141

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Primary government					
Governmental activities					
Instruction:					
Regular	$ 2,447,550	$ 110,017	$ 142,315	$ 8,476	$ (2,186,742)
Special education	593,476	-	-	-	(593,476)
Vocational education	238,399	-	58,176	-	(180,223)
Total instruction	3,279,425	110,017	200,491	8,476	(2,960,441)
Support services:					
Pupil services	80,215	-	-	-	(80,215)
Instructional staff services	124,390	-	-	-	(124,390)
General administration services	350,839	-	-	-	(350,839)
School administration services	178,739	-	-	-	(178,739)
Operations and maintenance	549,828	-	-	-	(549,828)
Pupil transportation services	309,813	-	195,248	-	(114,565)
Extracurricular activities	157,557	-	-	-	(157,557)
Food services	305,016	162,254	115,515	-	(27,247)
Other outlays	194,790	-	-	-	(194,790)
Interest on long-term debt	2,088	-	-	-	(2,088)
Total support services	2,253,275	162,254	310,763	-	(1,780,258)
Total governmental activities	5,532,700	272,271	511,254	8,476	(4,740,699)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	1,319,312
Property taxes, levied for renovation	200,775
State aid not restricted for specific purpose	
Per pupil aid	3,282,028
Interest income and other revenues	13,209
Total general revenues	4,815,324
Change in net position	74,625
Total net position - beginning	4,579,516
Total net position - ending	$ 4,654,141

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2018

	General Fund	Capital Projects Fund	Reserve	Food Service	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,193,015	$ 646,818	$ 295,754	$ 12,505	$ 2,148,092
Investments	626,099	-	-	-	626,099
Total assets	1,819,114	646,818	295,754	12,505	2,774,191
FUND BALANCES:					
Restricted for:					
Capital projects	-	646,818	-	-	646,818
Special revenues	-	-	295,754	-	295,754
Assigned to:					
Food service	-	-	-	12,505	12,505
Unassigned	1,819,114	-	-	-	1,819,114
Total fund balances	1,819,114	646,818	295,754	12,505	2,774,191
Total liabilities and fund balances	$ 1,819,114	$ 646,818	$ 295,754	$ 12,505	$ 2,774,191

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2018

Total fund balance - governmental funds		$ 2,774,191
Total net position reported for government activites in the statement of net position is different because:		
Capital assets used in governmental activites are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	4,543,317	
Less accumulated depreciation	(2,626,017)	
Net capital assets		1,917,300
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.		
Special assessments		(37,350)
Net position of governmental activities in the Statement of Net Position		$ 4,654,141

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects Fund	Reserve	Food Service	Total Governmental Funds
REVENUES					
Property taxes	$ 1,319,074	$ 200,775	$ 238	$ -	$ 1,520,087
Other local sources	124,312	4,545	938	162,284	292,079
State sources	3,535,451	-	-	1,419	3,536,870
Federal sources	144,192	-	-	114,096	258,288
Total revenues	5,123,029	205,320	1,176	277,799	5,607,324
EXPENDITURES					
Instruction:					
Regular	2,201,037	-	-	-	2,201,037
Special education	526,943	-	-	-	526,943
Vocational education	305,067	-	-	-	305,067
Total instruction	3,033,047	-	-	-	3,033,047
Support services:					
Pupil services	116,988	-	-	-	116,988
Instructional staff services	124,390	-	-	-	124,390
General administration services	350,839	-	-	-	350,839
School administration services	266,957	-	-	-	266,957
Operations and maintenance	345,115	284,535	-	-	629,650
Pupil transportation services	355,723	-	-	-	355,723
Extracurricular	157,557	-	-	-	157,557
Food service	139,858	-	-	165,158	305,016
Debt Service:					
Principal	1,998	-	-	-	1,998
Interest	2,087	-	-	-	2,087
Total support services	1,861,512	284,535	-	165,158	2,311,205
Capital Outlays	191,940	-	-	-	191,940
Total expenditures	5,086,499	284,535	-	165,158	5,536,192
Excess (deficiency) of revenues over expenditures	36,530	(79,215)	1,176	112,641	71,132
OTHER FINANCING SOURCES (USES)					
Transfers in	103,040	-	-	-	103,040
Transfers out	-	-	-	(103,040)	(103,040)
Total other financing sources and uses	103,040	-	-	(103,040)	-
Net change in fund balances	139,570	(79,215)	1,176	9,601	71,132
Fund balances - beginning	1,679,544	726,033	294,578	2,904	2,703,059
Fund balances - ending	$ 1,819,114	$ 646,818	$ 295,754	$ 12,505	$ 2,774,191

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds:		$ 71,132
The change in net poisition 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)	191,940	
Current year depreciation expense	(190,445)	
		1,495
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Position.		1,998
Change in net position of governmental activities		$ 74,625

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
MODIFIED CASH BASIS
JUNE 30, 2018

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 170,266
Total assets	$ 170,266
LIABILITIES	
Due to students	$ 170,266
Total liabilities	$ 170,266

SEE NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Principal Activity

Harvey Public School District operates the elementary and high school in the City of Harvey, North Dakota.

Reporting entity

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements display information about the District as a whole.

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

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

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

Fund Financial Statements

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

Capital projects fund - This fund accounts for the acquisition and construction of the District's major capital facilities.

Reserve fund – This fund is set aside to meet any unexpected costs that may arise.

Food service fund – This fund accounts for the activity and financial resources that support the District's hot lunch and breakfast programs.

Fiduciary Funds - The reporting focus of fiduciary funds is on net position and changes in net position. The District's two fiduciary funds are agency funds. These agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds consist of the following:

Student Activity fund - The fund accounts for the financial transactions related to the District's student activity programs.

Scholarship fund - The fund accounts for the flow through of funds received by the District that are used to fund scholarships for students.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund Financial Statements

The governmental funds are accounted for using a flow of current financial resources measurement focus, as applied to the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

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

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.

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. In accordance with the modified cash basis of accounting, the District reports capital assets and debt. Payments for payroll benefit liabilities are reported in the year that they are incurred and budgeted. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The District's governmental funds use the modified cash basis of accounting. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for services billed or provided but not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

Cash and Cash Equivalents

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

Investments

Investments are certificates of deposit with maturities of more than three months. North Dakota state statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation d) Obligations of the state.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year.

The District has established a capitalization threshold of $5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

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

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

Long-term Obligations

All long-term obligations related to debt are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investments in capital assets or the restricted component of net position.

Net Position Flow Assumption

Sometimes, the government will fund outlays for particular purposes for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted-net position to have been depleted before unrestricted – net position is applied.

Fund Balance Classifications

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

Interfund Activity

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

Estimates

The preparation of the financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalties 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 school district.

Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

NOTE 3 CONCENTRATION OF CREDIT RISK

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution. In the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that are in the possession of the outside parties. The District does not have a formal policy regarding deposits. The fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance on bonds.The District maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to $250,000 at each institution. At June 30, 2018, the District had approximately $2,596,514 in excess of the FDIC limits on deposit. The amount in excess was covered by pledged securities at June 30, 2018.

NOTE 4 ECONOMIC DEPENDENCY

Harvey Public School District No. 38 receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	7/1/2017	Additions	Deductions	6/30/2018
Capital assets being depreciated:				
Land improvements	24,528	-	-	24,528
Buildings and improvements	2,986,824	-	-	2,986,824
Machinery and equipment	760,017	89,746	-	849,763
Vehicles	580,008	102,194	-	682,202
Total capital assets being depreciated	4,351,377	191,940	-	4,543,317
Less accumulated depreciation				
Land improvements	19,272	1,226	-	20,498
Buildings and improvements	1,650,018	87,216	-	1,737,234
Machinery & equipment	359,496	45,717	-	405,213
Vehicles	406,786	56,286	-	463,072
Total accumulated depreciation	2,435,572	190,445	-	2,626,017
Total capital assets being depreciated, net	1,915,805	1,495	-	1,917,300
Net capital assets for governmental activites	$ 1,915,805	$ 1,495	$ -	$ 1,917,300

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

Regular	$ 121,388
Operations and maintenance	12,772
Pupil transportation	56,285
Total	$ 190,445

NOTE 6 LONG-TERM DEBT OBLIGATIONS

Special Assessments

The District is in the process of paying off several special assessments to the City of Harvey with interest rates of 4.0% and 5.375% which are scheduled to be paid off through 2033. The following is a schedule of the future expected principal and interest requirements to retire the special assessment long-term debt obligations as of June 30, 2018:

Fiscal Year	Principal	Interest	Total
2019	$ 2,098	$ 1,986	$ 4,084
2020	2,204	1,881	4,085
2021	2,316	1,769	4,085
2022	1,890	1,652	3,542
2023	1,990	1,551	3,541
2024-2028	11,678	6,026	17,704
2029-2033	15,174	2,531	17,705
Total	$ 37,350	$ 17,396	$ 54,746

Changes in long-term liabilities

The following is a summary of the activity in long term liabilities for the year ended June 30, 2018:

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due Within One Year
Governmental Activities:					
Special assessments	$ 39,348	$ -	$ (1,998)	$ 37,350	$ 2,098
Totals	$ 39,348	$ -	$ (1,998)	$ 37,350	$ 2,098

NOTE 7 PENSION PLANS

NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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 if Harvey Public School District were to report on the full accrual basis, a liability of $4,767,099 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2017, 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 cover payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2017, the Employer's proportion was 0.34707023%. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

Actuarial Assumptions

The total pension liability in the July 1, 2017 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, 2017, funding actuarial valuation for TFFR.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	0.80%
Global Real Assets	18%	5.20%
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, 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 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, 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.

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.

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 nine 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 and 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.

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 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At June 30, 2018, if Harvey Public School District were to report on the full accrual basis, a liability of $1,078,936 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2018, 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, 2017, the Employer's proportion was 0.067126%. There were no deferred inflows or outflows of resources reported on the District's financial statements as they are reporting on the modified cash basis.

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, 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 long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

***Discount rate*.** For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to $5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, if the Harvey Public School District were to report on the full accrual basis, a liability of $50,103 would have been reported. The net OPEB liability was measured at June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer’s proportion of the net OPEB liability was based on the Employer’s share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Employer’s proportion was 0.063341 percent. There were no deferred inflows or outflows of resources reported on the District’s financial statements as they are reporting on the modified cash basis.

Actuarial assumptions. The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
Internaitonal Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

***Discount rate*.** The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 9 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2018 was $21,118.

NOTE 10 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditures 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. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of the District as of June 30, 2018.

NOTE 11 TRANSFERS

The transfers as of June 30, 2018 consist of the following:

Transfers In	Amount	Transfers Out	Amount
General Fund	$ 103,040	Food Service	$ (103,040)

The transfers were made to reimburse the general fund for food service expenditures covered.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations,* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

NOTE 13 RISK MANAGEMENT

Harvey Public School District 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 subdivision of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the State and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence.

Harvey 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 two million dollars for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Harvey Public School District participates in North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from the above risks, have not exceeded insurance coverage in any of the past three fiscal periods.

NOTE 14 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

NOTE 15 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through February 6, 2019, which is the date these financial statements were available to be issued.

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts Original and Final	Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	$ 1,264,243	$ 1,319,074	$ 54,831
Other local sources	25,300	124,312	99,012
State sources	3,541,976	3,535,451	(6,525)
Federal sources	138,270	144,192	5,922
Total revenues	4,969,789	5,123,029	153,240
EXPENDITURES			
Instruction:			
Regular	2,380,786	2,201,037	179,749
Special education	582,544	526,943	55,601
Vocational education	334,393	305,067	29,326
Total instruction	3,297,723	3,033,047	264,676
Support services:			
Pupil services	122,082	116,988	5,094
Instructional staff services	129,948	124,390	5,558
General administration services	369,254	350,839	18,415
School administration services	270,484	266,957	3,527
Operations and maintenance	617,318	345,115	272,203
Pupil transportation services	318,501	355,723	(37,222)
Extracurricular	228,915	157,557	71,358
Food service	151,207	139,858	11,349
Principal and interest	-	4,085	(4,085)
Total support services	2,207,709	1,861,512	346,197
Capital outlay	-	191,940	(191,940)
Total Expenditures	5,505,432	5,086,499	418,933
Excess (deficiency) of revenues over expenditures	(535,643)	36,530	572,173
OTHER FINANCING SOURCES (USES)			
Transfers in	-	103,040	103,040
Transfers out	(5,000)	-	5,000
Total other financing sources and uses	(5,000)	103,040	108,040
Net change in fund balances	(540,643)	139,570	680,213
Fund balances - beginning	1,679,544	1,679,544	-
Fund balances - ending	$ 1,138,901	$ 1,819,114	$ 680,213

SEE NOTE TO THE SUPPLEMENTARY INFORMATION

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The District's board adopts an annual budget on a basis consistent with the modified cash basis 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.

BradyMartz

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

To The President and Board Members
Harvey Public School District
Harvey, 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 modified cash basis financial statements of the governmental activities and each major fund of the Harvey Public School District 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, and have issued our report thereon dated February 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the modified cash basis financial statements, we considered the District'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 modified cash basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 modified cash basis financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to indentify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. These are reported as findings 2018-001 and 2018-002.

Compliance and Other Matters

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

Harvey Public School District's Response to Findings

Harvey Public School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Harvey Public School 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

February 6, 2019

Findings Relating to Financial Statements

2018-001: ***Preparation of Financial Statements – Significant Deficiency***

Criteria: An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The District's personnel prepare periodic financial information for internal use that meets the needs of the board. However, the District does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause: The District's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with the modified cash basis of accounting. However, the entity is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation: We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of responsible officials and planned corrective action:

The District has reviewed their current system and due to the small size of the entity, it is not cost effective for the District to properly address this significant deficiency.

2018-002: ***Segregation of Duties – Significant Deficiency***

Criteria: Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation functions.

Condition: There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause: Size and budget constraints limit the number of personnel within the accounting department.

Effect: The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The District should consider if segregation of duties could be improved with respect to the District's cash receipt and disbursement functions. The District should also consider if monitoring controls could be improved. While not a complete listing, some possible internal controls to consider are as follows:

- Periodic comparisons of direct deposit listing to amounts clearing in bank statements by someone other than the business manager.
- A separate party reviews the bank reconciliations and bank statements.

Views of responsible officials and planned corrective action:

Periodic comparisons are done of direct deposits clearing in the bank statement is done by someone other than the business manager. Also, a separate party reviews the bank reconciliations and bank statements. Bank reconciliations are completed using the District's accounting software and then reports are forwarded to the District Superintendent for review and signature.