

***HAZEN PUBLIC SCHOOL  
DISTRICT NO. 3***

AUDIT REPORT

JUNE 30, 2019

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
HAZEN, NORTH DAKOTA

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Hazen Public School District No. 3  
Hazen, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3, Hazen, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3, Hazen, North Dakota as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 40, the District's share of net pension liability and employer contributions – ND Public Employees Retirement System on page 41, the District's share of net OPEB liability and employer contributions – ND Public Employees Retirement System on page 42, the budgetary comparison information on page 43, and the notes to the required supplementary information on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2019, on our consideration of Hazen Public School District No. 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hazen Public School District No. 3's internal control over financial reporting and compliance.

*Haga Kommer, Ltd.*

Haga Kommer, Ltd.  
Mandan, North Dakota  
December 27, 2019

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

This section of the Hazen Public School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2019 and provides certain comparative data for the year ended June 30, 2018. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

### FINANCIAL HIGHLIGHTS

- The District's taxable value has increased from \$15,390,639 in budget year 2018 to the current taxable value of \$16,171,424 in budget year 2019 due to new construction and the increased property values.
- The District continues to receive mineral royalties, mostly gravel mining, from Mercer County amounting to \$23,830 a decrease of \$16,617 from the previous fiscal year.
- Foundation aid per student rates remained the same with a rate of \$9,646 per student, less 75% of local income including gas, oil, coal, and minerals. Total enrollment numbers declined and the District realized a decrease of total foundation aid in the amount of \$106,284.
- With the total student population below 600, the District once again qualified for the Small, Rural School Achievement grant in the amount of \$28,647. The purpose of this supplemental formula grant program is to address the unique needs of rural school districts that frequently lack the personnel and resources to compete effectively for Federal competitive grants and receive formula grant allocations in amounts too small to be effective in meeting their intended purposes.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

### **Government-Wide Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has two kinds of funds:

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net position.** The District's net position was (\$46,679) at June 30, 2019 and \$685,335 at June 30, 2018. The net position decreased by \$732,014 for the year ended June 30, 2019.

|                                       | June 30, 2019 | June 30, 2018 |
|---------------------------------------|---------------|---------------|
| <b>ASSETS</b>                         |               |               |
| Current and Other Assets              | \$ 2,742,215  | \$ 2,776,994  |
| Capital and Non-Current Assets        | 5,025,252     | 5,508,579     |
| Total Assets                          | 7,767,467     | 8,285,573     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> | 1,375,062     | 1,446,043     |
| <b>LIABILITIES</b>                    |               |               |
| Current Liabilities                   | 612,984       | 556,830       |
| Long-Term Liabilities                 | 8,156,663     | 8,178,048     |
| Total Liabilities                     | 8,769,647     | 8,734,878     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  | 419,561       | 311,403       |
| <b>NET POSITION</b>                   |               |               |
| Net Investment in Capital Assets      | 4,065,252     | 4,403,579     |
| Restricted                            | 145,455       | 154,965       |
| Unrestricted                          | (4,257,386)   | (3,873,209)   |
| Total Net Position                    | \$ (46,679)   | \$ 685,335    |

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

**Changes in net position.** The District's total revenues were \$6,750,968. This is a decrease of 1% from the prior year. A significant portion of the District's revenues comes from state aid of 61%, property taxes of 16%, and coal funding and mineral resources of 13%.

The total cost of all programs and services was \$7,482,982. This is an increase of less than 1% from the prior year. 59% of these costs are for instruction and instruction-related services, 21% are for student support services, and 19% are for school administration and support services.

**Governmental Activities**

The District's taxes are levied for the general fund, the capital projects fund, debt service fund, and a special reserve fund. Property taxes are collected by the county and remitted to the District monthly.



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

The following table provides a summary of the District's operations for the year ended June 30, 2019.

| Governmental Activities                       | June 30, 2019      | June 30, 2018     |
|---|--------------------|-------------------|
| <b>Revenues</b>                               |                    |                   |
| <u>Program Revenues</u>                       |                    |                   |
| Charges for Services                          | \$ 255,993         | \$ 261,969        |
| Operating Grants & Contributions              | 318,617            | 337,457           |
| <u>General Revenues</u>                       |                    |                   |
| Property Taxes                                | 1,049,139          | 988,209           |
| Coal Funding and Mineral Resources            | 868,505            | 902,905           |
| State Aid                                     | 4,106,327          | 4,221,157         |
| Investment Earnings                           | 65,851             | 21,126            |
| Other Revenues                                | 86,536             | 89,617            |
| <b>Total Revenues</b>                         | <u>6,750,968</u>   | <u>6,822,440</u>  |
| <b>Expenses</b>                               |                    |                   |
| Instruction and Instruction-Related Services  | 4,410,311          | 4,641,585         |
| School Administration & Support Services      | 1,438,892          | 1,236,229         |
| Student Support Services                      | 1,598,915          | 1,557,491         |
| Community Services                            | 11,584             | 12,015            |
| Interest Expense                              | 23,280             | 25,310            |
| <b>Total Expenses</b>                         | <u>7,482,982</u>   | <u>7,472,630</u>  |
| Increase (Decrease) in Net Position           | (732,014)          | (650,190)         |
| Net Position - Beginning of Year              | 685,335            | 1,372,874         |
| Adjustment to Beginning Net Position          | -                  | (37,349)          |
| Net Position - Beginning of Year, as Restated | <u>685,335</u>     | <u>1,335,525</u>  |
| Net Position - End of Year                    | <u>\$ (46,679)</u> | <u>\$ 685,335</u> |

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

- The cost of all governmental activities this year was \$7,482,982, an increase of less than 1% from last year.
- The amount that our taxpayers paid for these activities through property taxes, state aid, investment earnings, and other revenue was \$6,908,372.
- Some of the cost, \$255,993, was paid by those who directly benefited from the programs.
- Grants and contributions totaled \$318,617.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2019

|  | June 30, 2019             |                         | June 30, 2018             |                         |
|--|---------------------------|-------------------------|---------------------------|-------------------------|
|  | Total Cost of<br>Services | Net Cost of<br>Services | Total Cost of<br>Services | Net Cost of<br>Services |
| Instruction & Instruction-Related Services | \$ 4,410,311              | \$ 4,181,010            | \$ 4,641,585              | \$ 4,403,909            |
| School Administration & Support Services   | 1,438,892                 | 1,420,532               | 1,236,229                 | 1,219,796               |
| Student Support Services                   | 1,598,915                 | 1,271,966               | 1,557,491                 | 1,212,174               |

**Financial Analysis of the District's Funds**

- Revenues from governmental fund types totaled \$6,734,554 a decrease of \$79,031 compared to the preceding year.
- State aid decreased \$115,784 due to a decrease in enrollment and an increase in the tax offset from the district increased taxable value. Both items are calculated in the Foundation Aid payment resulting in a decline.
- Federal aid decreased \$17,886 due to the decline in student population and less food service commodities recognized in the current year.

**General Fund Budgetary Highlights**

- The District budget was amended during the year to increase revenues by \$48,542 and increase expenditures by \$34,176.
- Actual revenues were \$10,845 more than the final budget amounts due to several reasons:
  - Property taxes received were \$19,676 greater than budgeted due to unanticipated back taxes, interest and penalties, etc. that are not known when budgeting.
  - A decrease in gravel mining in the county generated revenues for the District that were \$21,170 less than budgeted, while coal production/conversion was \$15,325 less than budgeted, leaving the District under budget by \$36,495.
  - Earnings on investments was \$23,906 greater than budgeted to do unrealized gains and interest income on multiple bond purchase and sales transactions during the year that were not anticipated.
- Overall, total expenditures were under budget by \$291,906. The largest line items over or under budget were:
  - Regular education programs expenditures were \$96,787 under budget due to staffing changes related to the decline in student enrollment and staff turnover.
  - Supportive Service – Business expenditures were \$30,439 under budget mostly due to capital credit issuance from the telephone cooperative in the amount of \$19,599.
  - Operation and Maintenance expenditures were \$46,449 under budget due to fewer major repairs being realized during the fiscal year with a remaining budget amount of \$21,463. Also, an employee was on unpaid leave of absence for two months and anticipated salary/benefit expenses were not utilized.
  - Student Activities expenditures were \$22,037 under budget due to a reduction of \$13,547 in the general fund support. In addition, there was no girls' hockey team, fewer students participating in co-op sports, no contract issued for athletic training services accounting for an additional \$11,000, and no semi-annual band trip expenses.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Management's Discussion and Analysis  
 June 30, 2019

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2019, the District had a net investment in capital assets of \$5,025,252. The District's net capital assets decreased from fiscal year 2018 to fiscal year 2019 by \$483,327.

|                               | June 30, 2019 | June 30, 2018 |
|-------------------------------|---------------|---------------|
| Land                          | \$ 37,500     | \$ 37,500     |
| Land Improvements             | 916,039       | 881,237       |
| Buildings                     | 13,258,403    | 13,258,403    |
| Building Improvements         | 4,315,495     | 4,276,566     |
| Equipment                     | 1,678,118     | 1,536,580     |
| Tech Equipment                | 223,108       | 223,108       |
| Vehicles                      | 176,993       | 176,993       |
| Totals at Historical Costs    | 20,605,656    | 20,390,387    |
| Less Accumulated Depreciation | (15,580,404)  | (14,881,808)  |
| Net Capital Assets            | \$ 5,025,252  | \$ 5,508,579  |

**District's Long Term Debt**

At June 30, 2019, the District had total debt outstanding of \$8,156,663. Of this amount, \$960,000 comprises bonds payable. There is also a net pension and OPEB liability of \$7,091,029 due to the implementation of GASB Statement No. 68 and 75. The remaining amount of \$105,634 is for accrued leave under the policies adopted by the District.

Excluding the net pension liability and accrued leave, the District's total debt decreased from fiscal year 2018 to fiscal year 2019 by \$145,000. Note 6 of this report provides detailed information on the debt of the District.

**Economic Factors and Next Year's Budgets and Rates**

Amounts available for appropriation in the general fund budget are \$6,514,723.

General fund expenditures are budgeted at \$6,721,879. The District has added no major new program initiatives to the 2020 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease \$207,156 at the close of the 2020 fiscal year.

**Contacting the District's Financial Management**

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Net Position

June 30, 2019

|  | Governmental<br>Activities  |
|--|-----------------------------|
|  | <u>                    </u> |
| <b>ASSETS</b>                          |                             |
| Cash and Cash Equivalents              | \$ 996,629                  |
| Investments                            | 1,636,908                   |
| Due from Other Governments             | 37,324                      |
| Taxes Receivable, Net                  | 71,354                      |
| Capital Assets, Net of Depreciation    | <u>5,025,252</u>            |
| Total Assets                           | 7,767,467                   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                             |
| Derived from Pensions and OPEB         | 1,375,062                   |
| <b>LIABILITIES</b>                     |                             |
| Accrued Salaries & Benefits            | 509,459                     |
| Accounts Payable                       | 103,525                     |
| Long-Term Liabilities:                 |                             |
| Portion Due or Payable within One Year |                             |
| Accrued Compensated Absences           | 30,000                      |
| Portion Due or Payable after One Year  |                             |
| Net Pension and OPEB Liability         | 7,091,029                   |
| Bonds Payable                          | 960,000                     |
| Compensated Absences                   | <u>75,634</u>               |
| Total Liabilities                      | 8,769,647                   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                             |
| Derived from Pensions and OPEB         | 419,561                     |
| <b>NET POSITION</b>                    |                             |
| Net Investment in Capital Assets       | 4,065,252                   |
| Restricted for:                        |                             |
| Capital Projects                       | 126,358                     |
| Debt Service                           | 19,097                      |
| Unrestricted                           | <u>(4,257,386)</u>          |
| Total Net Position                     | <u>\$ (46,679)</u>          |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Activities

For the Year Ended June 30, 2019

| <u>Functions/Programs</u>                  | Expenses     | Program Revenues     |                                  | Net (Expense)                     |
|--|--------------|----------------------|----------------------------------|-----------------------------------|
|  |              | Charges for Services | Operating Grants & Contributions | Revenue & Changes in Net Position |
| Governmental Activities                    |              |                      |                                  |                                   |
| Instruction & Instruction-Related Services | \$ 4,410,311 | \$ -                 | \$ 229,301                       | \$ (4,181,010)                    |
| School Administration & Support Services   | 1,438,892    | 18,360               | -                                | (1,420,532)                       |
| Student Support Services                   | 1,598,915    | 237,633              | 89,316                           | (1,271,966)                       |
| Community Services                         | 11,584       | -                    | -                                | (11,584)                          |
| Interest & Fees Expense                    | 23,280       | -                    | -                                | (23,280)                          |
| Total Primary Government                   | \$ 7,482,982 | \$ 255,993           | \$ 318,617                       | (6,908,372)                       |
| <br><u>General Revenues</u>                |              |                      |                                  |                                   |
| Taxes:                                     |              |                      |                                  |                                   |
|  |              |                      |                                  | 708,519                           |
|  |              |                      |                                  | 211,890                           |
|  |              |                      |                                  | 81,469                            |
|  |              |                      |                                  | 47,261                            |
|  |              |                      |                                  | 868,505                           |
|  |              |                      |                                  | 4,106,327                         |
|  |              |                      |                                  | 65,851                            |
|  |              |                      |                                  | 86,536                            |
| Total General Revenues                     |              |                      |                                  | <u>6,176,358</u>                  |
| Change in Net Position                     |              |                      |                                  | (732,014)                         |
| Net Position - Beginning of Year           |              |                      |                                  | <u>685,335</u>                    |
| Net Position - End of Year                 |              |                      |                                  | <u>\$ (46,679)</u>                |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Balance Sheet - Governmental Funds  
June 30, 2019

|  | Major Funds         |                          | Other                 | Total                 |
|--|---------------------|--------------------------|-----------------------|-----------------------|
|  | General             | Capital Projects<br>Fund | Governmental<br>Funds | Governmental<br>Funds |
| <b>ASSETS</b>  |                     |                          |                       |                       |
| Cash and Cash Equivalents  | \$ 564,419          | \$ 184,052               | \$ 248,158            | \$ 996,629            |
| Investments  | 1,636,908           | -                        | -                     | 1,636,908             |
| Due from County Treasurer  | 12,845              | 1,230                    | 760                   | 14,835                |
| Due from Other Governments   | 22,489              | -                        | -                     | 22,489                |
| Taxes Receivable, Net  | 46,994              | 15,380                   | 8,980                 | 71,354                |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,283,655</b> | <b>\$ 200,662</b>        | <b>\$ 257,898</b>     | <b>\$ 2,742,215</b>   |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>   |                     |                          |                       |                       |
| <b>Liabilities:</b>  |                     |                          |                       |                       |
| Accrued Salaries & Benefits  | \$ 509,459          | \$ -                     | \$ -                  | \$ 509,459            |
| Accounts Payable   | 29,221              | 74,304                   | -                     | 103,525               |
| <b>Total Liabilities</b>   | 538,680             | 74,304                   | -                     | 612,984               |
| <b>Deferred Inflows of Resources:</b>  |                     |                          |                       |                       |
| Uncollected Taxes  | 46,994              | 15,380                   | 8,980                 | 71,354                |
| <b>Total Liabilities and Deferred Inflows of Resources</b>   | 585,674             | 89,684                   | 8,980                 | 684,338               |
| <b>Fund Balances:</b>  |                     |                          |                       |                       |
| <b>Restricted</b>  |                     |                          |                       |                       |
| Capital Projects   | -                   | 110,978                  | -                     | 110,978               |
| Debt Service   | -                   | -                        | 13,544                | 13,544                |
| <b>Assigned</b>  |                     |                          |                       |                       |
| Food Service   | -                   | -                        | 58,572                | 58,572                |
| Consortium   | -                   | -                        | 3,952                 | 3,952                 |
| Special Reserve  | -                   | -                        | 172,850               | 172,850               |
| Unassigned   | 1,697,981           | -                        | -                     | 1,697,981             |
| <b>Total Fund Balances</b>   | <b>1,697,981</b>    | <b>110,978</b>           | <b>248,918</b>        | <b>2,057,877</b>      |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>   | <b>\$ 2,283,655</b> | <b>\$ 200,662</b>        | <b>\$ 257,898</b>     | <b>\$ 2,742,215</b>   |
| <b>Total fund balances - governmental funds</b>  |                     |                          |                       | <b>\$ 2,057,877</b>   |
| <b>Total net position reported for governmental activities in the statement of net position are different because:</b>   |                     |                          |                       |                       |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$20,605,656, and the accumulated depreciation is \$15,580,404.   |                     |                          |                       | 5,025,252             |
| Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.   |                     |                          |                       | 1,375,062             |
| The net pension and OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.   |                     |                          |                       | (7,091,029)           |
| Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.  |                     |                          |                       | (419,561)             |
| Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenues in the funds.  |                     |                          |                       | 71,354                |
| Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net position. Balances at June 30, 2019 are: |                     |                          |                       |                       |
| Bonds Payable  |                     |                          |                       | (960,000)             |
| Compensated absences   |                     |                          |                       | (105,634)             |
| <b>Net position of governmental activities</b>   |                     |                          |                       | <b>\$ (46,679)</b>    |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the year ended June 30, 2019

|  | Major Fund          |                          | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|--------------------------|--------------------------------|--------------------------------|
|  | General             | Capital Projects<br>Fund |                                |                                |
| <b>REVENUES</b>  |                     |                          |                                |                                |
| Property Taxes   | \$ 696,506          | \$ 208,552               | \$ 127,667                     | \$ 1,032,725                   |
| Coal Funding and Mineral Resources                           | 868,505             | -                        | -                              | 868,505                        |
| Fees and Charges   | 35,700              | -                        | 282,864                        | 318,564                        |
| State Aid  | 4,173,653           | -                        | 1,218                          | 4,174,871                      |
| Federal Aid  | 161,975             | -                        | 88,098                         | 250,073                        |
| Earnings on Investments                                      | 63,406              | 1,890                    | 555                            | 65,851                         |
| Miscellaneous  | 23,965              | -                        | -                              | 23,965                         |
| <b>TOTAL REVENUES</b>  | <b>6,023,710</b>    | <b>210,442</b>           | <b>500,402</b>                 | <b>6,734,554</b>               |
| <b>EXPENDITURES</b>  |                     |                          |                                |                                |
| <b>Current:</b>  |                     |                          |                                |                                |
| Regular Education Programs                                   | 2,981,221           | -                        | -                              | 2,981,221                      |
| Title I  | 66,178              | -                        | -                              | 66,178                         |
| Title VI   | 10,176              | -                        | -                              | 10,176                         |
| Title II   | 36,548              | -                        | -                              | 36,548                         |
| Other Federal Programs                                       | 28,647              | -                        | -                              | 28,647                         |
| Improvement of Instruction Service                           | 3,934               | -                        | -                              | 3,934                          |
| Instructional Media Service                                  | 125,297             | -                        | -                              | 125,297                        |
| Other Instruction Support Service                            | 72,650              | -                        | -                              | 72,650                         |
| School Board   | 155,213             | -                        | -                              | 155,213                        |
| Executive Administration                                     | 215,105             | -                        | -                              | 215,105                        |
| Supportive Service - Business                                | 158,336             | -                        | -                              | 158,336                        |
| Other Support Services                                       | 113,595             | -                        | -                              | 113,595                        |
| Operation & Maintenance                                      | 666,878             | -                        | -                              | 666,878                        |
| Support Services Central                                     | 224,009             | -                        | -                              | 224,009                        |
| Student Activities   | 280,096             | -                        | -                              | 280,096                        |
| Student Transportation                                       | 410,197             | -                        | -                              | 410,197                        |
| Services Provided Another LEA                                | 30,360              | -                        | -                              | 30,360                         |
| Vocational Education   | 384,184             | -                        | -                              | 384,184                        |
| Special Education  | 196,923             | -                        | -                              | 196,923                        |
| Adult Education/Community Services                           | 3,244               | -                        | 8,340                          | 11,584                         |
| Food Service   | 7,936               | -                        | 358,074                        | 366,010                        |
| Capital Outlay   | -                   | 136,479                  | -                              | 136,479                        |
| <b>Debt Service:</b>   |                     |                          |                                |                                |
| Fees   | -                   | 526                      | 524                            | 1,050                          |
| Principal  | -                   | 70,000                   | 75,000                         | 145,000                        |
| Interest   | -                   | 10,660                   | 11,570                         | 22,230                         |
| <b>TOTAL EXPENDITURES</b>                                    | <b>6,170,727</b>    | <b>217,665</b>           | <b>453,508</b>                 | <b>6,841,900</b>               |
| Excess (Deficiency) of Revenues Over (Under)<br>Expenditures | (147,017)           | (7,223)                  | 46,894                         | (107,346)                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                          |                                |                                |
| Transfers In (Out)   | 100,000             | -                        | (100,000)                      | -                              |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>100,000</b>      | <b>-</b>                 | <b>(100,000)</b>               | <b>-</b>                       |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(47,017)</b>     | <b>(7,223)</b>           | <b>(53,106)</b>                | <b>(107,346)</b>               |
| Fund Balances - July 1, 2018                                 | 1,744,998           | 118,201                  | 302,024                        | 2,165,223                      |
| <b>FUND BALANCES - JUNE 30, 2019</b>                         | <b>\$ 1,697,981</b> | <b>\$ 110,978</b>        | <b>\$ 248,918</b>              | <b>\$ 2,057,877</b>            |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 For the year ended June 30, 2019

Net change in fund balances - total governmental funds \$ (107,346)

The change in net position reported for governmental activities in the statement of activities is different because:

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

|                                   |                  |           |
|-----------------------------------|------------------|-----------|
| Current Year Capital Outlay       | \$ 215,269       |           |
| Current Year Depreciation Expense | <u>(698,596)</u> | (483,327) |

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

|                   |         |
|-------------------|---------|
| Repayment of Debt | 145,000 |
|-------------------|---------|

Governmental funds report the pension and OPEB expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension and OPEB expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (303,783)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 16,414

Compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

|                                      |              |
|--------------------------------------|--------------|
| Net Decrease in Compensated Absences | <u>1,028</u> |
|--------------------------------------|--------------|

|   |                     |
|---|---------------------|
| Change in net position of governmental activities | <u>\$ (732,014)</u> |
|---|---------------------|



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Statement of Assets and Liabilities - Fiduciary Funds  
June 30, 2019

|                           | <u>Agency Funds</u> |
|---------------------------|---------------------|
| <b>ASSETS</b>             |                     |
| Cash and Cash Equivalents | <u>\$ 100,411</u>   |
| <b>LIABILITIES</b>        |                     |
| Due to Student Groups     | <u>\$ 100,411</u>   |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hazen Public School District No. 3 complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant of District's accounting policies are described below.

Reporting Entity

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

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

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

**Capital Projects Fund:** The Capital Projects Fund is used to account for taxes assessed and expended for capital projects.

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

Measurement Focus/Basis of Accounting

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

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Transactions

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

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

Encumbrance Accounting

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

Cash, Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits, savings accounts, and certificates of deposit with a maturity of three months or less when purchased.

Investments

Investments are recorded at fair value as required by GASB Statement No. 72, *Fair Value Measurement and Application*. The District has not adopted a policy limiting the amount that can be invested with any one issuer.

Inventory

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

Capital Assets

Capital assets including land, buildings, improvements, equipment and vehicles, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value of the at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Renewals and betterments are capitalized.

Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

|                        |               |
|------------------------|---------------|
| Buildings              | 50 years      |
| Improvements           | 10 – 20 years |
| Equipment and Vehicles | 6 – 15 years  |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

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

Fund Balance Classifications

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

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

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

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

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

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

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

Deferred Inflows/Outflows of Resources

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 10 for additional information.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from TFFR and NDPERS's fiduciary net position have been determined on the same basis as they are reported by TFFR and NDPERS. 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.

Other Post Employment Benefit (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2      DEPOSITS – CASH AND INVESTMENTS

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 2      DEPOSITS – CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk

As of June 30, 2019, the District’s carrying balances were \$1,142,283 for governmental funds, including certificates of deposit and \$100,411 for agency funds. The bank balance of these deposits as of June 30, 2019 was \$1,320,771. Of the bank balances, \$395,769 was covered by Federal Depository Insurance and National Credit Union Administration Insurance, and \$925,002 was collateralized with securities held by the pledging financial institutions’ agent not in the District’s name.

Credit Risk and Interest Rate Risk

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

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

The investments of the District include U.S. government securities and bonds held by Piper Jaffray and First Financial Equity Corporation, and certificates of deposit held by the District at local financial institutions. At June 30, 2019, the District’s investments had interest rates from 0.31 percent to 3.65 percent with maturities of 12 months or greater. Following is a summary of investments by type:

| <u>Investment Type</u>                           | <u>Total Fair Value</u> | <u>Less than 1 Year</u> | <u>1-7 Years</u>    |
|--|-------------------------|-------------------------|---------------------|
| U.S. Agency Securities held by Piper Jaffray     | \$ 114,957              | \$ 114,957              | \$ -                |
| Bonds held by First Financial Equity Corporation | 1,376,297               | -                       | 1,376,297           |
| Certificates of Deposit                          | <u>145,654</u>          | <u>145,654</u>          | <u>-</u>            |
| Total  | <u>\$ 1,636,908</u>     | <u>\$ 260,611</u>       | <u>\$ 1,376,297</u> |

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The District does not have an investment policy that specifically addresses credit risk.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 3      FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measured at fair value on a recurring basis at June 30, 2019.

| ASSETS            | TOTAL        | Quoted<br>Prices in<br>Active<br>Markets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
|-------------------|--------------|---|---|--|
| Long-term CDs     | \$ 145,654   | \$ 145,654  | \$ -  | \$ -   |
| US Treasury Bonds | 1,376,297    | -   | 1,376,297   | -  |
|                   | \$ 1,521,951 | \$ 145,654  | \$ 1,376,297  | \$ -   |

NOTE 4      PROPERTY TAX

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

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

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



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 5      CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2019:

|   | Balance July 1      | Increases           | Decreases   | Balance June 30     |
|---|---------------------|---------------------|-------------|---------------------|
| Capital assets not being depreciated:       |                     |                     |             |                     |
| Land  | \$ 37,500           | \$ -                | \$ -        | \$ 37,500           |
| Total Capital Assets Not Being Depreciated  | 37,500              | -                   | -           | 37,500              |
| Capital assets being depreciated:           |                     |                     |             |                     |
| Land Improvements                           | 881,237             | 34,802              | -           | 916,039             |
| Buildings                                   | 13,258,403          | -                   | -           | 13,258,403          |
| Building Improvements                       | 4,276,566           | 38,928              | -           | 4,315,494           |
| Equipment                                   | 1,536,580           | 141,539             | -           | 1,678,119           |
| Tech Equipment                              | 223,108             | -                   | -           | 223,108             |
| Vehicles                                    | 176,993             | -                   | -           | 176,993             |
| Total Capital Assets Being Depreciated      | 20,352,887          | 215,269             | -           | 20,568,156          |
| Less accumulated depreciation for           |                     |                     |             |                     |
| Land Improvements                           | 466,919             | 35,138              | -           | 502,057             |
| Buildings                                   | 10,383,337          | 130,685             | -           | 10,514,022          |
| Building Improvements                       | 2,987,412           | 376,495             | -           | 3,363,907           |
| Equipment                                   | 827,893             | 131,212             | -           | 959,105             |
| Tech Equipment                              | 117,699             | 17,158              | -           | 134,857             |
| Vehicles                                    | 98,548              | 7,908               | -           | 106,456             |
| Total Accumulated Depreciation              | 14,881,808          | 698,596             | -           | 15,580,404          |
| Total Capital Assets Being Depreciated, Net | 5,471,079           | (483,327)           | -           | 4,987,752           |
| Total Capital Assets, Net                   | <u>\$ 5,508,579</u> | <u>\$ (483,327)</u> | <u>\$ -</u> | <u>\$ 5,025,252</u> |

Depreciation expense for the year ended June 30, 2019 was \$698,596 and has been reported in the government-wide statement of activities. Depreciation expense was charged to functions/programs of the District as follows:

| <u>Functions/Programs</u>                  | <u>Amount</u>     |
|--|-------------------|
| Instruction & Instruction-Related Services | \$ 349,298        |
| School Administration & Support Services   | 174,649           |
| Student Support Services                   | 174,649           |
| Total Depreciation Expense                 | <u>\$ 698,596</u> |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
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NOTE 6      LONG-TERM DEBT

Following is a summary of long-term debt activity for the year ended June 30, 2019:

|                        | ** Compensated |               |              |
|------------------------|----------------|---------------|--------------|
|                        | Absences       | Bonds Payable | Total        |
| Payable, June 30, 2018 | \$ 106,662     | \$ 1,105,000  | \$ 1,211,662 |
| Paid                   | (1,028)        | (145,000)     | (146,028)    |
| Payable, June 30, 2019 | \$ 105,634     | \$ 960,000    | \$ 1,065,634 |

\*\* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost. The District has estimated \$30,000 of leave will be payable in the next year.

The bond payable includes the following:

General Obligation Building Fund Bonds for \$1,925,000; dated December 12, 2011; due in semi-annual payments from August 1, 2012 through August 1, 2025; interest at 0.60 percent to 2.20 percent.

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

| For the year ending June 30, | Principal  | Interest  | Total        |
|------------------------------|------------|-----------|--------------|
| 2020                         | \$ -       | \$ 10,100 | \$ 10,100    |
| 2021                         | 150,000    | 18,700    | 168,700      |
| 2022                         | 155,000    | 15,650    | 170,650      |
| 2023                         | 155,000    | 12,550    | 167,550      |
| 2024                         | 165,000    | 9,185     | 174,185      |
| 2024-2026                    | 335,000    | 7,425     | 342,425      |
|                              | \$ 960,000 | \$ 73,610 | \$ 1,033,610 |

NOTE 7      DUE FROM OTHER GOVERNMENTS

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

NOTE 8      DUE FROM COUNTY TREASURER

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

NOTE 9      ACCRUED SALARIES AND BENEFITS

Salaries and benefits payable consists of salaries earned by employees but not paid until after year-end. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from teacher's salaries as of June 30.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 10      DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2019, are as follows:

|                                |                     |
|--------------------------------|---------------------|
| Deferred Outflows of Resources |                     |
| Derived from pension - TFFR    | \$ 820,538          |
| Derived from pension - NDPERS  | 535,795             |
| Derived from pension - OPEB    | 18,729              |
| Total                          | <u>\$ 1,375,062</u> |
| Deferred Inflows of Resources  |                     |
| Derived from pension - TFFR    | \$ 334,421          |
| Derived from pension - NDPERS  | 82,989              |
| Derived from pension - OPEB    | 2,151               |
| Total                          | <u>\$ 419,561</u>   |

Note 11 of the financial statements contains detail of the pension plans.

NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

1. 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.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
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NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)- CONTINUED

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
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June 30, 2019

NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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, 2019, the District reported a liability of \$5,875,982 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the District’s proportion was 0.44085570% which was an increase of .00797826% from its proportion measured as of July 1, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$509,776. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience  | \$ 15,948                            | \$ 159,810                          |
| Change of assumptions   | 323,698                              | -                                   |
| Net difference between projected and actual earnings on pension plan investments                              | -                                    | 20,315                              |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 127,401                              | 154,296                             |
| Employer contributions subsequent to the measurement date (see below)   | 353,491                              | -                                   |
| Total   | \$ 820,538                           | \$ 334,421                          |

\$353,491 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pensions liability in the year ended June 30, 2020.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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

| <u>For the year ended June 30,</u> |            |
|------------------------------------|------------|
| 2020                               | \$ 182,698 |
| 2021                               | 100,557    |
| 2022                               | (43,547)   |
| 2023                               | (75,414)   |
| 2024                               | (28,505)   |
| Thereafter                         | (3,164)    |

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumption used in the July 1, 2018, funding actuarial valuations for TFFR.

As a result of April 30, 2015 actuarial experiences 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.

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June 30, 2019

NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of July 1, 2018 are summarized in the following table:

| Asset Class         | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------|-------------------|--|
| Global Equities     | 58%               | 6.7%                                   |
| Global Fixed Income | 23%               | 1.5%                                   |
| Global Real Assets  | 18%               | 5.1%                                   |
| 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, 2018. 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, 2018, 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, 2018. 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, 2018.

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

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

|  | <u>1% Decrease (6.75%)</u> | <u>Current Discount<br/>Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|--|----------------------------|--|----------------------------|
| Employer's proportionate share of<br>the net pension liability | \$ 7,934,276               | \$ 5,875,982                             | \$ 4,164,121               |

Pension plan fiduciary net position

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

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NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

2. North Dakota Public Employees Retirement System (Main 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; 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. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). 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 monthly 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.



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NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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, 2019, the District reported a liability of \$1,164,045 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the District's proportion was 0.068976 percent which was an increase of 0.008291 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$198,085. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
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NOTE 11 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience  | \$ 3,080                             | \$ 39,603                           |
| Changes of assumptions  | 420,196                              | 16,614                              |
| Net difference between projected and actual earnings on pension plan investments                              | -                                    | 5,663                               |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 60,777                               | 21,109                              |
| Employer contributions subsequent to the measurement date (see below)   | 51,742                               | -                                   |
| Total   | \$ 535,795                           | \$ 82,989                           |

\$51,742 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

| For the year ended June 30, |            |
|-----------------------------|------------|
| 2020                        | \$ 125,858 |
| 2021                        | 110,371    |
| 2022                        | 94,371     |
| 2023                        | 61,796     |
| 2024                        | 8,668      |
| Thereafter                  | -          |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
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NOTE 11 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

|                  |                                    |                   |                       |
|------------------|------------------------------------|-------------------|-----------------------|
| Salary increases | Service At<br>Beginning<br>of Year | State<br>Employee | Non-State<br>Employee |
|                  | 0                                  | 12.00%            | 15.00%                |
|                  | 1                                  | 9.50%             | 10.00%                |
|                  | 2                                  | 7.25%             | 8.00%                 |
|                  | 3                                  | *                 | *                     |
|                  | 4                                  | *                 | *                     |
|                  | Age                                |                   |                       |
|                  | Under 30                           | 7.25%             | 10.00%                |
|                  | 30-39                              | 6.50%             | 7.50%                 |
|                  | 40-49                              | 6.25%             | 6.75%                 |
|                  | 50-59                              | 5.75%             | 6.50%                 |
|                  | 60+                                | 5.00%             | 5.25%                 |

\*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 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 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            | 30%               | 6.05%                                  |
| International Equity       | 21%               | 6.71%                                  |
| Private Equity             | 7%                | 10.20%                                 |
| Domestic Fixed Income      | 23%               | 1.45%                                  |
| International Fixed Income | 0%                | 0.00%                                  |
| Global Real Assets         | 19%               | 5.11%                                  |
| Cash Equivalents           | 0%                | 0.00%                                  |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
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NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

|  | 1% Decrease<br>(5.32%) | Current Discount<br>Rate (6.32%) | 1% Increase<br>(7.32%) |
|--|------------------------|----------------------------------|------------------------|
| Employer's proportionate share of<br>the net pension liability | \$      1,581,721      | \$      1,164,045                | \$      815,508        |

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

3. North Dakota Public Employees Retirement System (OPEB)

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.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2019

NOTE 11 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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, 2019 the Employer reported a liability of \$51,002 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2018, the Employer's proportion was 0.064759 percent, which was an increase of 0.007496 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 the Employer recognized OPEB expense of \$7,105. At June 30, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 11      PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience  | \$ 1,526                             | \$ 1,054                            |
| Change of assumptions   | 4,185                                | -                                   |
| Net difference between projected and actual earnings on OPEB plan investments                                 | -                                    | 1,097                               |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 4,940                                | -                                   |
| Employer contributions subsequent to the measurement date (see below)   | 8,078                                | -                                   |
| Total   | \$ 18,729                            | \$ 2,151                            |

\$8,078 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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

|            | For the year ended June 30, |
|------------|-----------------------------|
| 2020       | \$ 1,230                    |
| 2021       | 1,230                       |
| 2022       | 1,714                       |
| 2023       | 1,626                       |
| 2024       | 1,196                       |
| Thereafter | 274                         |

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                              |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2019

NOTE 11 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)– CONTINUED

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%                                  |
| International Equities      | 14%               | 6.20%                                  |
| Core-Plus Fixed Income      | 40%               | 1.46%                                  |

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.5%. 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, 2018, and July 1, 2017, 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.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

|  | 1% Decrease<br>(6.5%) | Current Discount<br>Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|---------------------------------|--------------------|
| Employer's proportionate share of the net OPEB liability | \$ 64,530             | \$ 51,002                       | \$ 39,405          |

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2019

NOTE 12      RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence.

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

The District continues to carry commercial insurance for all other risks of loss, North Dakota fire and tornado fund, and employee health and accident insurance. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13      EXPENDITURES IN EXCESS OF BUDGET

For the fiscal year ended June 30, 2019, certain individual line items were over in the general fund budget, but as a whole the expenditures were under budget. No remedial action is anticipated.

NOTE 14      INTERFUND TRANSFER

For the fiscal year ended June 30, 2019, the Special Reserve Fund transferred \$100,000 to the General Fund for the amount that would exceed the limitation allowed by State law for the Special Reserve Fund.

NOTE 15      TAX ABATEMENTS

Hazen Public School District and political subdivisions within Mercer County can negotiate property tax abatement agreements with individuals and various commercial entities/businesses. Mercer County and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at June 30, 2019.

The District will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs.

**Religious Organization Exemption**

All buildings owned by any religious corporation or organization and used exclusively for religious purposes of the organization that meet state requirements of (NDCC 57-02-09) are eligible for property tax incentives.

**Public Charity Exemption**

Public charities are eligible for property tax incentives if they meet state requirements (NDCC 57-02-08(8)) and the guidelines stated below.



HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2019

NOTE 15 TAX ABATEMENTS – CONTINUED

All buildings belonging to institutions of public charity, including public hospitals and nursing homes licenses pursuant to section 23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit. The exemption provided by this subsection includes any dormitory, dwelling, or residential-type structure, together with necessary land on which such structure is located, owned by a religious or charitable organization recognized as tax exempt under section 501(c)(3) of the United States Internal Revenue Code which is occupied by members of said organization who are subject to a religious vow of poverty and devote and donate substantially all of their time to the religious or charitable activities of the owner.

Property is exempt if the qualified facility is used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit.

**Renaissance Zone Incentives**

The City of Hazen has approved special tax incentives for renaissance zone projects that meet state requirements (NDCC 40-63-05) as follows:

- A municipality may grant a partial or complete exemption from ad valorem taxation on single-family residential property, exclusive of the land on which it is situated, if the property was purchased or rehabilitated by an individual for the individual's primary place of residence as a zone project. An exemption granted under this subsection may not extend beyond five taxable years following the date of acquisition or completion of rehabilitation.
- A municipality may grant a partial or complete exemption from ad valorem taxation on buildings, structures, fixtures, and improvements purchased or rehabilitated as a zone project for any business or investment purpose. The state board of equalization may grant a partial or complete exemption from ad valorem taxation on public utility infrastructure rehabilitated as a zone project. An exemption under this subsection may not extend beyond five taxable years following the date of purchase or completion of rehabilitation.

The City's incentives apply to both single family residence properties and business or investment properties. Tax exemption percentages and qualification requirements are applied as applicable based upon the type of property.

The total reduction in property tax revenue due tax abatements is as follows:

| <b>Program</b>           | <b>Reduction in<br/>Property Tax<br/>Revenue</b> |
|--------------------------|--|
| Religious Organization   | \$ 25,235  |
| Public Charity           | 25,848   |
| Renaissance Zone Program | 8,628  |
| Other Programs           | 492  |
|                          | \$ 60,203  |

The Hazen Hospital Association attributes to greater than 20% of the overall total reduction in property tax revenue for the District at \$24,591.

***REQUIRED  
SUPPLEMENTARY INFORMATION***

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Required Supplementary Information  
 For the Year Ended June 30, 2019

Schedule of Employer's Share of Net Pension Liability  
 ND Teachers' Fund for Retirement  
 Last 10 Fiscal Years \*

|  | 2019         | 2018         | 2017         | 2016         | 2015         |
|--|--------------|--------------|--------------|--------------|--------------|
| Employer's proportion of the net pension liability (asset)   | 0.44085570%  | 0.43287744%  | 0.44352809%  | 0.452736%    | 0.444521%    |
| Employer's proportionate share of the net pension liability (asset)  | \$ 5,875,982 | \$ 5,945,683 | \$ 6,497,946 | \$ 5,921,131 | \$ 4,657,792 |
| Employer's covered payroll   | \$ 2,996,978 | \$ 2,921,799 | \$ 2,881,712 | \$ 2,784,803 | \$ 2,578,459 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 196.06%      | 203.49%      | 225.49%      | 212.62%      | 180.64%      |
| Plan fiduciary net position as a percentage of the total pension liability                                 | 65.5%        | 63.2%        | 59.2%        | 62.1%        | 66.6%        |

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

Schedule of Employer Contributions  
 ND Teachers' Fund for Retirement  
 Last 10 Fiscal Years \*

|  | 2019         | 2018         | 2017         | 2016         | 2015         |
|--|--------------|--------------|--------------|--------------|--------------|
| Statutorily required contribution                                  | \$ 353,491   | \$ 382,114   | \$ 372,529   | \$ 367,418   | \$ 355,045   |
| Contributions in relation to the statutorily required contribution | \$ (353,491) | \$ (382,114) | \$ (372,529) | \$ (367,418) | \$ (355,045) |
| Contribution deficiency (excess)                                   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Employer's covered payroll   | \$ 2,772,477 | \$ 2,996,978 | \$ 2,921,799 | \$ 2,881,712 | \$ 2,784,803 |
| Contributions as a percentage of covered payroll                   | 12.75%       | 12.75%       | 12.75%       | 12.75%       | 12.75%       |

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

Data reported is measured as of 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Required Supplementary Information  
For the Year Ended June 30, 2019

Schedule of Employer's Share of Net Pension Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years \*

|   | 2019         | 2018       | 2017       | 2016       | 2015       |
|---|--------------|------------|------------|------------|------------|
| Employer's proportion of the net pension liability (asset)  | 0.068976%    | 0.060685%  | 0.061733%  | 0.066878%  | 0.067559%  |
| Employer's proportionate share of the net pension liability (asset)   | \$ 1,164,045 | \$ 975,407 | \$ 601,648 | \$ 454,759 | \$ 428,811 |
| Employer's covered-employee payroll   | \$ 708,600   | \$ 619,498 | \$ 622,121 | \$ 595,803 | \$ 569,095 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 164.27%      | 157.45%    | 96.71%     | 76.33%     | 75.35%     |
| Plan fiduciary net position as a percentage of the total pension liability  | 62.80%       | 61.98%     | 70.46%     | 77.15%     | 77.70%     |

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

Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years \*

|  | 2019        | 2018        | 2017        | 2016        | 2015        |
|--|-------------|-------------|-------------|-------------|-------------|
| Statutorily required contribution                                  | \$ 52,192   | \$ 44,921   | \$ 45,041   | \$ 45,256   | \$ 40,520   |
| Contributions in relation to the statutorily required contribution | \$ (47,066) | \$ (50,170) | \$ (46,953) | \$ (44,264) | \$ (40,520) |
| Contribution deficiency (excess)                                   | \$ 5,126    | \$ (5,789)  | \$ (1,912)  | \$ 992      | \$ -        |
| Employer's covered-employee payroll                                | \$ 708,600  | \$ 619,498  | \$ 622,121  | \$ 595,803  | \$ 569,095  |
| Contributions as a percentage of covered-employee payroll          | 6.64%       | 8.19%       | 7.55%       | 7.60%       | 7.12%       |

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

Data reported is measured as of 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Required Supplementary Information  
 For the Year Ended June 30, 2019

Schedule of Employer's Share of Net OPEB Liability  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years \*

|  | 2019       | 2018       |
|--|------------|------------|
| Employer's proportion of the net OPEB liability (asset)  | 0.064759%  | 0.057263%  |
| Employer's proportionate share of the net OPEB liability (asset)   | \$ 51,002  | \$ 45,296  |
| Employer's covered-employee payroll  | \$ 708,600 | \$ 619,498 |
| Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | 7.20%      | 7.31%      |
| Plan fiduciary net position as a percentage of the total OPEB liability  | 61.89%     | 59.78%     |

\* Complete data for this schedule is not available prior to 2017.

Schedule of Employer OPEB Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years \*

|  | 2019       | 2018       |
|--|------------|------------|
| Statutorily required contribution                                  | \$ 8,312   | \$ 7,201   |
| Contributions in relation to the statutorily required contribution | \$ (7,536) | \$ (8,119) |
| Contribution deficiency (excess)                                   | \$ 776     | \$ (918)   |
| Employer's covered-employee payroll                                | \$ 708,600 | \$ 619,498 |
| Contributions as a percentage of covered-employee payroll          | 1.06%      | 1.31%      |

\* Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2017.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Budgetary Comparison Schedule  
 General Fund  
 For the year ended June 30, 2019

|  | <u>Budgeted Amounts</u> |                     | Actual<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|-------------------------|---------------------|--------------------------------|---|
|  | Original                | Final               |                                |   |
| <b>REVENUES</b>  |                         |                     |                                |   |
| Property Taxes   | \$ 676,830              | \$ 676,830          | \$ 696,506                     | \$ 19,676   |
| Coal Funding and Mineral Resources                           | 905,000                 | 905,000             | 868,505                        | (36,495)  |
| Fees and Charges   | 44,300                  | 44,300              | 35,700                         | (8,600)   |
| State Aid  | 4,126,095               | 4,168,487           | 4,173,653                      | 5,166   |
| Federal Aid  | 156,621                 | 160,388             | 161,975                        | 1,587   |
| Earnings on Investments                                      | 39,500                  | 39,500              | 63,406                         | 23,906  |
| Miscellaneous  | 15,977                  | 18,360              | 23,965                         | 5,605   |
| <b>TOTAL REVENUES</b>  | <u>5,964,323</u>        | <u>6,012,865</u>    | <u>6,023,710</u>               | <u>10,845</u>   |
| <b>EXPENDITURES</b>  |                         |                     |                                |   |
| Current:   |                         |                     |                                |   |
| Regular Education Programs                                   | 3,023,440               | 3,078,008           | 2,981,221                      | 96,787  |
| Title I  | 66,193                  | 66,193              | 66,178                         | 15  |
| Title IV   | 10,176                  | 10,176              | 10,176                         | -   |
| Title II   | 32,564                  | 36,552              | 36,548                         | 4   |
| Other Federal Programs                                       | 29,805                  | 28,647              | 28,647                         | -   |
| Improvement of Instruction Service                           | 13,300                  | 13,300              | 3,934                          | 9,366   |
| Instructional Media Service                                  | 133,087                 | 135,440             | 125,297                        | 10,143  |
| Other Instruction Support Service                            | 72,564                  | 73,330              | 72,650                         | 680   |
| School Board   | 182,965                 | 182,965             | 155,213                        | 27,752  |
| Executive Administration                                     | 217,235                 | 217,235             | 215,105                        | 2,130   |
| Supportive Service - Business                                | 188,775                 | 188,775             | 158,336                        | 30,439  |
| Other Support Services                                       | 115,034                 | 115,034             | 113,595                        | 1,439   |
| Operation & Maintenance                                      | 719,875                 | 713,327             | 666,878                        | 46,449  |
| Support Services Central                                     | 223,141                 | 223,141             | 224,009                        | (868)   |
| Student Activities   | 302,133                 | 302,133             | 280,096                        | 22,037  |
| Student Transportation                                       | 413,903                 | 413,903             | 410,197                        | 3,706   |
| Services Provided Another LEA                                | 31,577                  | 33,960              | 30,360                         | 3,600   |
| Vocational Education   | 396,491                 | 397,731             | 384,184                        | 13,547  |
| Special Education  | 237,153                 | 213,135             | 196,923                        | 16,212  |
| Adult Education/Community Services                           | 6,034                   | 6,034               | 3,244                          | 2,790   |
| Food Service   | 13,021                  | 13,614              | 7,936                          | 5,678   |
| <b>TOTAL EXPENDITURES</b>                                    | <u>6,428,466</u>        | <u>6,462,633</u>    | <u>6,170,727</u>               | <u>291,906</u>  |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures | (464,143)               | (449,768)           | (147,017)                      | 302,751   |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                         |                     |                                |   |
| Transfers In (Out)   | 100,000                 | 100,000             | 100,000                        | -   |
| Total Other Financing Sources (Uses)                         | <u>100,000</u>          | <u>100,000</u>      | <u>100,000</u>                 | <u>-</u>  |
| <b>NET CHANGE IN FUND BALANCES</b>                           | (364,143)               | (349,768)           | (47,017)                       | 302,751   |
| Fund Balances - July 1, 2018                                 | <u>1,744,998</u>        | <u>1,744,998</u>    | <u>1,744,998</u>               | <u>-</u>  |
| <b>FUND BALANCES - JUNE 30, 2019</b>                         | <u>\$ 1,380,855</u>     | <u>\$ 1,395,230</u> | <u>\$ 1,697,981</u>            | <u>\$ 302,751</u>   |

Hazen Public School District No. 3  
Notes to Required Supplementary Information  
June 30, 2019

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

Amounts 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.

NOTE 2 CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM  
MAIN AND OPEB

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experiences study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

Governing Board  
Hazen Public School District No. 3  
Hazen, 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, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hazen Public School District No. 3'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 Hazen Public School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Hazen Public School District No. 3's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described as findings 2019-001 and 2019-002 in the accompanying schedule of findings that we consider to be significant deficiencies.



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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hazen Public School District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Hazen Public School District No. 3's Response to Findings**

Hazen Public School District No. 3, Hazen, North Dakota's responses to the findings identified in our audit are described in the accompanying schedule of findings. Hazen Public School District No. 3's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

*Haga Kommer, Ltd.*

Haga Kommer, Ltd.  
Mandan, North Dakota  
December 27, 2019

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Schedule of Findings  
For the Year Ended June 30, 2019

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

|   |            |
|---|------------|
| Type of auditor's report issued:  | Unmodified |
| Internal control over financial reporting:                                |            |
| Material weaknesses identified?   | No         |
| Control deficiencies identified not considered to be material weaknesses? | Yes        |
| Noncompliance material to financial statements noted?                     | No         |

**SECTION II – FINANCIAL STATEMENT AUDIT**

*Significant Deficiencies*

**Finding 2019-001: Segregation of Duties**

Condition – The Business Manager and Assistant Business Manager are responsible for the majority of accounting functions. Considering the size of the entity, it is not feasible to obtain proper separating of duties and the degree of internal control is severely limited.

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

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

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

Recommendation – This is not unusual in organizations of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Management Response – The District is aware of the limitations and has determined additional staff is not feasible. The District will monitor the condition.

**Finding 2019-002: Preparation of the Financial Statements**

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

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

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

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

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

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