

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2018

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

TABLE OF CONTENTS
June 30, 2018

	<u>Page(s)</u>
Official Directory	1
INDEPENDENT AUDITOR’S REPORT	2 – 4
Management’s Discussion and Analysis	5 – 10
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Activities	12
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	16
Statement of Fiduciary Assets and Liabilities – Agency Funds	17
Notes to Financial Statements	18 – 37
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	38
Pension Schedules	39 – 41
Notes to Required Supplementary Information	42
SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds – Combining Balance Sheet	43
Nonmajor Governmental Funds – Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance	44
Schedule of Receipts and Disbursements – Activity Fund	45
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 <i>GOVERNMENT AUDITING STANDARDS</i>	46 – 47
Schedule of Findings and Questioned Costs	48 – 49
Summary Schedule of Prior Audit Findings	50

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

OFFICIAL DIRECTORY
June 30, 2018

Kristin Beck	President
Chris Mathias	Vice-President
Rachelle Bopp	Board Member
Derrick Hansen	Board Member
Margie Johnson	Board Member
Randall Cale	Superintendent
Donna Anderson	Business Manager



INDEPENDENT AUDITOR'S REPORT

School Board
North Sargent Public School District No. 3
Gwinner, 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 the North Sargent Public School District No. 3, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise North Sargent Public School District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

North Sargent Public School District No. 3's 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 the North Sargent Public School District No. 3, as of June 30, 2018 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Sargent Public School District No. 3's basic financial statements. The nonmajor governmental funds – combining balance sheet, nonmajor governmental funds – schedule of revenues, expenditures, and changes in fund balance, and schedule of receipts and disbursements - activity fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The official directory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018 on our consideration of North Sargent 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 North Sargent Public School District No. 3's internal control over financial reporting and compliance.

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, ND
November 5, 2018

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The Management's Discussion and Analysis (MD&A) of North Sargent Public School District No. 3's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018, with comparative data for the fiscal year ended June 30, 2017. 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

Key financial highlights for the year ended June 30, 2018 are as follows:

The Ag Department remodel was started in the summer of 2017 and was finalized in June of 2018 with the building fund reimbursing the general fund for the total remodel expense of \$46,626. The 2017-18 school year started with no Ag Teacher, as the Superintendent planned to teach Ag. A teacher was hired in October and the budget was not updated to reflect the expense which added to a total overspending of \$42,783 in teacher salary expense. The expenses also exceeded what was budgeted in custodial and elementary para salaries, benefits, substitute teacher expenses, supplies and equipment for a total overage of \$114,437. On the revenue side, the school received \$53,988 less in state aid than projected. Our ending fund balance for the general fund was reduced from \$757,303 in June of 2017 to \$548,276 in June of 2018 a 17% carryover.

Using this Annual Report

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the North Sargent Public School District No. 3 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting on the District as a Whole

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the North Sargent Public School District No. 3 to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended June 30, 2018?"

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, regular instruction, federal programs, special education, vocational education, administration, food services, operation and maintenance of buildings and grounds, student transportation, and co-curricular activities.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis - Continued

The government-wide financial statements can be found on pages 11-12 of this report.

Reporting on the District's Most Significant Funds

Balance Sheet - Governmental Funds

The District uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basic financial statements allow the District to demonstrate its stewardship over the accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the District's major funds. Using the criteria established by GASB Statement No. 34, the District's general fund, capital projects building fund, and special revenue fund are considered a "major fund."

The District's other fund, the food service fund, is used to account for a school food services and is summarized under the heading "Other Governmental Funds".

The basic governmental fund financial statements can be found on pages 13-16 of this report.

In addition, the District has the following fund types

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the North Sargent Public School District No. 3's own programs.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 18-37 of this report.

The combining statements referred to earlier in connection with non-major government funds can be found on pages 43-44 of this report.

Financial Analysis of the District as a Whole

Table I provides a summary of the District's net position as of June 30, 2018 and 2017. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the North Sargent Public School District No. 3, net position decreased by \$576,394 for the year ending June 30, 2018.

The District's net position at June 30, 2018 is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net positions are available to meet the District's ongoing obligations.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis - Continued

Table I
Net Position
June 30,

	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets	\$ 929,325	\$ 1,125,465
Capital Assets, net of depreciation	1,425,035	1,385,115
Deferred Outflows of Resources	886,614	1,178,055
Total Assets and Deferred Outflows of Resources	3,240,974	3,688,635
Liabilities and Deferred Inflows of Resources		
Current Liabilities	17,447	28,714
Long-term Liabilities	3,792,346	3,733,757
Deferred Inflows of Resources	175,331	93,920
Total Liabilities and Deferred Inflows of Resources	3,985,124	3,856,391
Net Position (Deficit)		
Net Investment in Capital Assets	1,392,848	1,385,115
Restricted	326,514	112,003
Unrestricted (Deficit)	(2,463,512)	(1,664,874)
Total Net Position (Deficit)	\$ (744,150)	\$ (167,756)

Table II shows the changes in net position for the fiscal years ended June 30, 2018 and 2017.

Table II
Changes in Net Position
Years Ended June 30,

	2018	2017
Revenues		
Program Revenues		
Charges for Services	\$ 71,693	\$ 66,906
Operating Grants and Contributions	182,827	172,852
General Revenues		
Property Taxes	583,461	508,562
State Aid-Unrestricted	2,404,507	2,534,750
Interest and Miscellaneous Earnings	22,127	20,291
Total Revenues	\$ 3,264,615	\$ 3,303,361

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis - Continued

Table II
Changes in Net Position
Years Ended June 30,

	2018	2017
Expenses		
Regular Instruction	\$ 2,109,426	\$ 1,917,790
Special Instruction	415,160	326,790
Vocational Instruction	122,876	132,965
Pupil Services	145,599	136,203
General Administration Services	228,504	230,345
School Administration Services	117,711	114,791
Operation and Maintenance	314,172	275,343
Pupil Transportation	99,557	87,158
Student Activities	165,534	146,655
School Food Services	122,469	116,270
Interest and Other Charges	1	-
Total Expenses	<u>3,841,009</u>	<u>3,484,310</u>
Change in Net Position	<u>\$ (576,394)</u>	<u>\$ (180,949)</u>

Unrestricted state aid constituted 73.7%, property tax 17.9%, operating grants and contributions 5.6%, and charges for services 2.2% of the total revenues of governmental activities of the District for the fiscal year ended June 30, 2018.

Regular instruction constituted 54.9%, special instruction 10.8%, operation and maintenance 8.2%, general administration 5.9%, and student activities 4.3% of total expenses for governmental activities during the fiscal year ended June 30, 2018.

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

Table III
Total and Net Cost of Services
Years Ended June 30,

	Total Cost		Net Cost	
	2018	2017	2018	2017
Regular Instruction	\$ 2,109,426	\$ 1,917,790	\$ 2,030,920	\$ 1,849,742
Special Instruction	415,160	326,790	415,160	326,790
Vocational Instruction	122,876	132,965	117,144	125,915
Pupil Services	145,599	136,203	145,599	136,203
General Administration Services	228,504	230,345	228,504	230,345
School Administration Services	117,711	114,791	117,711	114,791
Operation and Maintenance	314,172	275,343	314,172	275,343
Pupil Transportation	99,557	87,158	47,992	31,473
Student Activities	165,534	146,655	165,534	146,655
School Food Services	122,469	116,270	3,752	7,295
Interest and Other Charges	1	-	1	-
Total Expenses	<u>\$ 3,841,009</u>	<u>\$ 3,484,310</u>	<u>\$ 3,586,489</u>	<u>\$ 3,244,552</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis - Continued

Financial Analysis of the Governmental Funds

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

The District's governmental funds had total revenue of \$3,225,658 and expenditures of \$3,482,534 for the fiscal year ended June 30, 2018. The unassigned fund balance of the District's general fund was \$548,276.

General Fund Budgetary Highlights

During the year, revenues were less than budgetary estimates by \$90,699, expenditures were more than budgetary estimates by \$167,685 and ending fund balance was less than budgetary estimates by \$220,843.

Additional information on the North Sargent Public School District No. 3 budget can be found in Note 2 of the audited financial statements that follow this analysis.

Capital Assets

As of June 30, 2018, the North Sargent Public School District No. 3 had \$1,425,035 invested in capital assets. Table IV shows the balances at June 30, 2018 and 2017.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
Years Ended June 30,

	2018	2017
Buildings and Improvements	\$ 1,230,180	\$ 1,200,835
Vehicles	123,891	103,996
Equipment	70,964	80,284
Total Capital Assets	<u>\$ 1,425,035</u>	<u>\$ 1,385,115</u>

This total represents a net increase of \$39,920 in capital assets from the prior fiscal year. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 8 of the audited financial statements that follow this analysis.

Debt Administration

As of June 30, 2018, the North Sargent Public School District No. 3 had \$32,187 of total debt, a net increase of \$32,187 from the previous fiscal year.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis - Continued

Table V
Outstanding Debt
Years Ended June 30,

	Total Outstanding		Due Within One Year	
	2018	2017	2018	2017
	Notes Payable	\$ 32,187	\$ -	\$ 10,403
Total	\$ 32,187	\$ -	\$ 10,403	\$ -

For additional information regarding the outstanding debt, readers are referred to Note 9 of the audited financial statements that follow this analysis.

For the Future

The budget will be reviewed throughout the school year and updated as needed. The goal is to build the general fund ending balance back up to a 25% carryover. The District needed to utilize the 12 Mill Miscellaneous Levy for the first time in 2018-19, to make up for the shortfall from the state revenue. The District will pay for 24 teacher laptops and 25 docking stations out of Waste Management funds. The District entered the SRCTC membership for an annual fee of \$96,507, which will cover the entire cost of our Ag Program. A special reserve fund transfer of \$50,000 is also budgeted to cover the revenue shortfall and balance the 2018-19 budget, being the general fund levy is maxed at a 12% increase and we are limited with state aid based on enrollment.

Contacting the Districts Financial Management

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the North Sargent Public School District No. 3's finances and to show the District's accountability for the money it receives to provide the best possible education to all students enrolled in North Sargent Public School District No. 3. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Donna Anderson at P.O. Box 289, Gwinner, North Dakota, 58040, (701) 678-2492.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

STATEMENT OF NET POSITION
June 30, 2018

ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 628,464
Savings and CD's	181,348
Accounts Receivable	10,484
Due from County	4,789
Due from Federal Government	52,245
Taxes Receivable	51,995
	<hr/>
Total Current Assets	929,325
Capital Assets	
Depreciable, net of accumulated depreciation	
Buildings and Improvements	1,230,180
Vehicles	123,891
Equipment	70,964
	<hr/>
Total Capital Assets	1,425,035
	<hr/>
Total Assets	2,354,360
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pension	886,614
	<hr/>
Total Assets and Deferred Outflows of Resources	3,240,974
LIABILITIES	
Current Liabilities	
Accounts Payable	7,044
Current Portion of Long-term Debt	
Notes Payable	10,403
	<hr/>
Total Current Liabilities	17,447
Due After One Year	
Notes Payable	21,784
Compensated Absences	24,020
Pension Liability	3,746,542
	<hr/>
Total Long-term Liabilities	3,792,346
	<hr/>
Total Liabilities	3,809,793
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	175,331
	<hr/>
Total Liabilities and Deferred Inflows of Resources	3,985,124
NET POSITION (DEFICIT)	
Net Investment in Capital Assets	1,392,848
Restricted	326,514
Unrestricted (Deficit)	(2,463,512)
	<hr/>
Total Net Position (Deficit)	\$ (744,150)
	<hr/>

See Notes to Financial Statements

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Regular Instruction	\$ 2,109,426	\$ 6,060	\$ 72,446	\$ (2,030,920)
Special Instruction	415,160	-	-	(415,160)
Vocational Instruction	122,876	-	5,732	(117,144)
Pupil Services	145,599	-	-	(145,599)
General Administration Services	228,504	-	-	(228,504)
School Administration Services	117,711	-	-	(117,711)
Operation and Maintenance	314,172	-	-	(314,172)
Pupil Transportation	99,557	-	51,565	(47,992)
Student Activities	165,534	-	-	(165,534)
School Food Services	122,469	65,633	53,084	(3,752)
Interest and Other Charges	1	-	-	(1)
	<u>\$ 3,841,009</u>	<u>\$ 71,693</u>	<u>\$ 182,827</u>	<u>(3,586,489)</u>
General Revenues				
Taxes				
Taxes Levied for General Purposes				526,400
Taxes Levied for Building Purposes				57,061
State Aid, not restricted for specific purpose				2,404,507
Interest and Investment Earnings				3,116
Miscellaneous				19,011
Total General Revenues				<u>3,010,095</u>
Change in Net Position				(576,394)
Net Position (Deficit), Beginning of Year				(167,756)
Net Position (Deficit), End of Year				<u>\$ (744,150)</u>

See Notes to Financial Statements

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Special Reserve	Capital Projects		
ASSETS					
Cash and Cash Equivalents	\$ 307,148	\$ 121,123	\$ 197,627	\$ 2,566	\$ 628,464
Savings and CD's	181,348	-	-	-	181,348
Accounts Receivable	10,484	-	-	-	10,484
Due from County	4,095	198	496	-	4,789
Due from Federal Government	52,245	-	-	-	52,245
Taxes Receivable	44,925	1,622	5,448	-	51,995
Total Assets	\$ 600,245	\$ 122,943	\$ 203,571	\$ 2,566	\$ 929,325
LIABILITIES					
Accounts Payable	\$ 7,044	\$ -	\$ -	\$ -	\$ 7,044
Total Liabilities	7,044	-	-	-	7,044
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	44,925	1,622	5,448	-	51,995
Total Deferred Inflows of Resources	44,925	1,622	5,448	-	51,995
FUND BALANCE					
Restricted	-	121,321	198,123	-	319,444
Assigned	-	-	-	2,566	2,566
Unassigned	548,276	-	-	-	548,276
Fund Balance	548,276	121,321	198,123	2,566	870,286
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 600,245	\$ 122,943	\$ 203,571	\$ 2,566	\$ 929,325

See Notes to Financial Statements

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balance - Governmental Funds \$ 870,286

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	3,036,156	
Less Accumulated Depreciation	(1,611,121)	
Net Capital Assets	1,425,035	1,425,035

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds. 51,995

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 expenditures when due. All liabilities, both current and long-term are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.

Interest Payable	-	
Compensated Absences	(24,020)	
General Obligation Bonds Payable	-	
State School Construction Bonds Payable	-	
Notes Payable	(32,187)	
Capital Leases Payable	-	
Special Assessments Payable	-	
Pension Liability (net of related outflows and inflows)	(3,035,259)	
Total Long-term Liabilities	(3,091,466)	(3,091,466)

Total Net Position of Governmental Activities \$ (744,150)

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Special Reserve	Capital Projects		
REVENUES					
Local Sources	\$ 476,687	\$ 20,880	\$ 52,997	\$ 65,763	\$ 616,327
State Sources	2,461,804	-	-	1,210	2,463,014
Federal Sources	72,446	-	-	51,744	124,190
Interest Income	2,599	161	352	4	3,116
Miscellaneous Income	19,011	-	-	-	19,011
Total Revenues	3,032,547	21,041	53,349	118,721	3,225,658
EXPENDITURES					
Current					
Regular Instruction	1,670,593	-	-	-	1,670,593
Special Instruction	415,160	-	-	-	415,160
Vocational Instruction	118,990	-	-	-	118,990
Pupil Services	145,599	-	-	-	145,599
General Administration Services	228,168	-	-	-	228,168
School Administration Services	117,711	-	-	-	117,711
Operation and Maintenance	314,172	-	-	-	314,172
Pupil Transportation	131,721	-	-	-	131,721
Student Activities	137,555	-	-	-	137,555
School Food Services	-	-	-	118,632	118,632
Debt Service					
Principal	11,262	-	-	-	11,262
Interest and Other Charges	-	1	-	-	1
Facilities Acquisition and Construction	-	-	72,970	-	72,970
Total Expenditures	3,290,931	1	72,970	118,632	3,482,534
Exces (Deficiency) of Revenues over Expenditures	(258,384)	21,040	(19,621)	89	(256,876)
OTHER FINANCING SOURCES (USES)					
Proceeds from Long-term Debt	43,449	-	-	-	43,449
Operating Transfer In	9,800	-	-	3,892	13,692
Operating Transfer Out	(3,892)	(9,800)	-	-	(13,692)
Total Other Financing Sources (Uses)	49,357	(9,800)	-	3,892	43,449
NET CHANGE IN FUND BALANCE	(209,027)	11,240	(19,621)	3,981	(213,427)
FUND BALANCE, BEGINNING OF YEAR	757,303	110,081	217,744	(1,415)	1,083,713
FUND BALANCE, END OF YEAR	\$ 548,276	\$ 121,321	\$ 198,123	\$ 2,566	\$ 870,286

See Notes to Financial Statements

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

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

Net Change in Fund Balance - Total Governmental Funds \$ (213,427)

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 costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year. 39,920

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	(6,015)	
Net Increase in Pension Liability	(403,642)	
Net Decrease in Interest Payable	-	
	-	(409,657)

Governmental funds report debt proceeds as current financial resources. The statement of activities treats such issuance of bonds payable as a liability. (43,449)

Repayment of debt principal and other long-term liabilities is an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statement of net position. 11,262

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of an increase in taxes receivable. 38,957

Change in Net Position of Governmental Activities \$ (576,394)

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

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

	<u>Agency Funds</u>
Cash and Investments	<u>\$ 88,941</u>
Total Assets	<u><u>\$ 88,941</u></u>
Due to Groups	<u>\$ 88,941</u>
Total Liabilities	<u><u>\$ 88,941</u></u>

See Notes to Financial Statements

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Sargent Public School District No. 3, Gwinner, North Dakota (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying financial statements present the activities of the North Sargent Public School District No. 3. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the North Sargent Public School District No. 3 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on North Sargent Public School District No. 3.

Based on these criteria, there are no component units to be included within the North Sargent Public School District No. 3 as a reporting entity.

B. Basis of Presentation, Basis of Accounting

Government-wide statements - The statement of net position and the statement of activities display information about the primary government (North Sargent Public School District No. 3). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, fees and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements - The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects Building Fund - Used to account for financial resources related to capital outlays made by the District.

Special Reserve Fund - Used to account for resources restricted to, or designated for, specific purposes by the District.

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

1. Governmental Funds

a. *Food Service Fund* - Used to account for food service revenues and expenditures.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

2. Fiduciary Funds

- a. *Agency Funds* - Used to account for resources held for others in a custodial capacity, the District's Agency Fund is the Student Activity Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements - The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Government Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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.

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or less. 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 uninsured balance.

Investments consist of certificates of deposits stated at cost with maturities greater than three months.

E. Capital Assets

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Playground equipment	20
School busses	15
Other vehicles	15
Office equipment	5
Other equipment	10

F. Vacation Pay, Sick Pay, Severance

The expenditures for vacation pay are recognized when payment is made. Employees are not allowed to carryover unused vacation days. Upon termination of employment with the District, an employee that has a minimum of five years of service in the District will be entitled to sick pay reimbursement at the rate of \$20 per day, for a maximum of 80 days of unused, accumulated sick leave.

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the government activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material. In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pension Plans

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) additions to/deductions from TFFR and NDPERS 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.

I. Fund Balance and Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restriction or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the North Sargent Public School District No. 3 to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Budget Stabilization Policy:

Replenishing deficiencies - when fund balance falls below the minimum 10 percent range, the District will replenish shortages/deficiencies using the budget strategies and time frames described as follows:

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit; or
- The District will increase revenues or pursue funding sources; or
- Some combination of the two operations above.

GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purpose for which resources can be used:

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

Restricted Fund Balance

Special Revenue Fund

Funds used for special uses as restricted by state law. In accordance with NDCC 57-19-01, the ending fund balance is limited to the amount generated by fifteen (15) mills times the taxable valuation of the District. Restricted by enabling legislation and tax levy.

Capital Projects Fund

Fund used for construction of building additions and renovation projects – restricted by specified tax levy.

Assigned Fund Balance

Food Service Fund

Restricted state and federal resources are spent first and reimbursed by each year-end. Any remaining fund balance is normally left in the food service fund at each year-end, but may be spent at the discretion of the business manager (authority given from the governing board). Assigned by federal and state reimbursements for free and reduced meals and grants.

Unassigned Fund Balance

Consists of the amount reported in the General Fund at year-end.

Net Position

The District implemented the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2013.

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.

Net Investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture capital construction requirements for capital projects and special purposes. Unrestricted net position is primarily unrestricted amounts related to the general fund and any negative fund balances. The unrestricted net position is available to meet the District's ongoing obligations.

J. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

Expenditures over Appropriations – General fund expenditures exceed appropriates for the year ended June 30, 2018. Unbudgeted expenditures for a new teacher and other expenditures in salaries, benefits, supplies, and equipment exceed budgeted amounts.

NOTE 3 – DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the District maintains deposits at the depository banks designed 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, 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 body and bonds issued by another state of the United States or such other securities approved by the banking board. At year end June 30, 2018, the District's carrying amounts of deposits was \$898,753 and the bank balances were \$1,270,036. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by pledging financial institution's agent in the government's name.

Credit 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.

As of June 30, 2018, the District held one certificate of deposit with a value of \$181,348.

Interest Rate Risk:

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

Concentration of Credit Risk:

The District does not have a limit on the amount it may invest in any one issuer.

NOTE 4 – TAXES RECEIVABLE

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

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts for accrued interest and amounts on open account from other school districts and organizations for goods and services furnished by the District. No allowance has been established for uncollectible accounts.

NOTE 6 – DUE FROM COUNTY

Due from county represents the amount of taxes collected prior to year-end that are distributed to the District shortly after June 30, 2018.

NOTE 7 – DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of a reimbursement claim for various Title Programs. This claim is passed through the state.

NOTE 8 – CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Governmental Activities:				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 2,469,698	\$ 72,970	\$ -	\$ 2,542,668
Vehicles	310,226	43,449	-	353,675
Equipment	139,813	-	-	139,813
Total Capital Assets, being depreciated	2,919,737	116,419	-	3,036,156
Less Accumulated Depreciation for:				
Buildings and Improvements	1,268,863	43,625	-	1,312,488
Vehicles	206,230	23,554	-	229,784
Equipment	59,529	9,320	-	68,849
Total Accumulated Depreciation	1,534,622	76,499	-	1,611,121
Total Capital Assets Being Depreciated, net	1,385,115	39,920	-	1,425,035
Governmental Activities Capital Assets, net	\$ 1,385,115	\$ 39,920	\$ -	\$ 1,425,035

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

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

Governmental Activities:	
Regular Instruction	\$ 29,176
Vocational Instruction	3,886
General Administration Services	336
Pupil Transportation	11,285
Student Activities	27,979
School Food Services	<u>3,837</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 76,499</u>

NOTE 9 – LONG-TERM LIABILITIES

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

	Long-term Liabilites at July 1, 2017	Increases	Decreases	Long-term Liabilites at June 30, 2018	Due Within One Year
Governmental Activities					
Notes Payable	\$ -	\$ 43,449	\$ (11,262)	\$ 32,187	\$ 10,403
Compensated Absences*	18,005	6,015	-	24,020	-
Pension Liability*	<u>3,715,752</u>	<u>30,790</u>	<u>-</u>	<u>3,746,542</u>	<u>-</u>
Total - Governmental Activities	<u>\$ 3,733,757</u>	<u>\$ 80,254</u>	<u>\$ (11,262)</u>	<u>\$ 3,802,749</u>	<u>\$ 10,403</u>

*The change in compensated absences pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Outstanding debt at June 30, 2018, is comprised of the following:

A. Note Payable – From an original issuance of \$43,449 at an interest rate of 3.1%, \$32,187 remains outstanding. The principal and interest are payable through January 20, 2021.

The debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2019	3.10%	\$ 10,403	\$ 998	\$ 11,401
2020	3.10%	10,726	675	11,401
2021	3.10%	<u>11,058</u>	<u>343</u>	<u>11,401</u>
		<u>\$ 32,187</u>	<u>\$ 2,016</u>	<u>\$ 34,203</u>

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivables of \$51,995. Deferred inflows of resources on the statement of net position consist of related pension expense of \$175,331.

NOTE 11 – DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the fund financial statements consist of amounts for which liability recognition criteria have been met, but for which expense recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred outflows of resources on the statement of net position consist of related pension expense of \$886,614.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$2,000,000 per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$1,134,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health and boiler and machinery insurance. Settled claims resulting from these above risks have not exceeded insurance coverage in any of the past three fiscal years.

The District has elected to be self-insured and retain all risk for liabilities resulting from claims of unemployment benefits. During the year ended June 30, 2018, no claims were filed for unemployment benefits.

NOTE 13 – PENSION PLANS

North Dakota Teacher's Fund for Retirement

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

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

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

Pension Benefits

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Notes to Financial Statements – Continued

Tier 1 Grandfathered

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

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

Tier 1 Non-Grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – 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. Re-funded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, the District reported a liability of \$3,103,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial calculation as of that date. The District’s proportion of the net pension liability was based on the Districts share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At June 30, 2017 the District’s proportion was .225950 percent which was a decrease of .007179 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expenses of \$331,633. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,904	\$ 33,879
Changes in assumptions	221,204	-
Net difference between projected and actual investment earnings	42,868	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	232,289	75,135
Employer contributions subsequent to the measurement date	<u>20,502</u>	<u>-</u>
Totals	<u>\$ 528,767</u>	<u>\$ 109,014</u>

\$20,502 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<u>Year ended June 30</u>	
2019	\$ 86,452
2020	153,692
2021	111,593
2022	37,734
2023	25,770
Thereafter	(15,990)

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

Actuarial Assumptions

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

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

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

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

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

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	0.80%
Global Real Assets	18%	5.20%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Notes to Financial Statements – Continued

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 4,126,125	\$ 3,103,475	\$ 2,252,150

Pension plan fiduciary net position

Detailed information is located in the North Dakota Retirement and Investments Office's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. Additional financial and actuarial information is available on their website, www.nd.gov/rio, or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multi-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death, and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions 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 member's 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.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and ages. Member contribution rates are 7% and employer contribution rates 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 of \$25
13 to 24 months of service	Greater of two percent of monthly salary of \$25
25 to 36 months of service	Greater of three percent of monthly salary of \$25
Longer than 36 months of service	Greater of four percent of monthly salary of \$25

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

At June 30, 2018, the District reported a liability of \$614,530 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2017, the District's proportion was .038233 percent, which was a decrease of .007423 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$94,899. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,653	\$ 2,994
Changes in assumptions	251,999	13,860
Net difference between projected and actual investment earnings	8,265	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	58,532	47,688
Employer contributions subsequent to the measurement date	28,102	-
Totals	<u>\$ 350,551</u>	<u>\$ 64,542</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

\$28,102 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<u>Year ended June 30</u>	
2019	\$ 55,451
2020	66,792
2021	58,128
2022	46,633
2023	30,903
Thereafter	-

Actuarial Assumptions

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

Inflation	3.50%	
Salary Increases	<u>Services at Beginning of Year</u>	<u>Increase Rate</u>
	0	15.00%
	1	10.00%
	2	8.00%
	<u>Age*</u>	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

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

Investment Rate of Return	7.75%, net of investment expense
Cost-of-Living-Adjustment	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scales, and percent married assumption.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – 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 Fund’s target asset allocation are summarized in the following table:

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

Discount Rate

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

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

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
District's proportionate share of the net pension liability	\$ 834,243	\$ 614,530	\$ 431,738

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial report for the fiscal year ended June 30, 2017. The supporting actuarial information is included in the June 30, 2017, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, www.nd.gov/ndpers, or may be obtained by contacting the agency at North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657 or by calling (701) 328-3900.

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS

North Dakota Public Employees Retirement System

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

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

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

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

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

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

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

At June 30, 2018, the District reported a liability of \$28,537 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the District's proportion was .036077 percent.

For the year ended June 30, 2018 the District recognized OPEB expense of \$3,445. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 696
Changes in assumptions	2,764	-
Net difference between projected and actual investment earnings	-	1,079
Changes in proportion and differences between employer contributions and proportionate share of contributions	32	-
Employer contributions subsequent to the measurement date	4,500	-
Totals	<u>\$ 7,296</u>	<u>\$ 1,775</u>

\$4,500 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

<u>Year ended June 30:</u>	
2019	\$ 59
2020	59
2021	59
2022	59
2023	329
Thereafter	456

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – 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%	1.56%

Discount Rate

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

Sensitivity of The District’s Proportionate Share of the Net OPEB Liability to Change in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50 percent, 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 35,725	\$ 28,537	\$ 22,376

NOTE 15 – JOINT VENTURE

The District participates in the following joint ventures:

A. South Valley Multi-District Special Education Unit

Formed for the purpose of providing special education services to the member school districts. The Co-op's governing board is composed of ten representatives from the member school districts, who are superintendents. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to Financial Statements – Continued

Separate financial statements for this joint venture are available from South Valley Multi-District Special Education Unit.

B. Southeast Region Career and Technology Center

Formed for the purpose of providing vocational services to the member school districts. The Co-op’s governing board is composed of eight representatives from the member school districts, who are school board members. The Board is responsible for adopting the

Co-op’s budget and setting service fees at a level adequate to fund the adopted budget. The School District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation. Separate financial statements for this joint venture are available from Southeast Region Career and Technology Center.

NOTE 16 – NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its food service program. The market value of commodities received for the year ended June 30, 2018 was \$13,959.

NOTE 17 – TRANSFERS

The following is a summary of transfers for the year ended June 30, 2018:

Fund	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 9,800	\$ 3,892
Special Reserve	-	9,800
Food Service	<u>3,892</u>	<u>-</u>
Totals	<u>\$ 13,692</u>	<u>\$ 13,692</u>

A transfer from the general fund to the food service fund was made to eliminate prior years due to the general fund from the food service fund. A transfer was made from the special revenue fund to the general fund in accordance with NDCC 57-19-02.

NOTE 18 – CONCENTRATIONS

The District receives a substantial amount of its support from federal and state governments. A significant reduction in this support may have a material effect on the District's programs and its continued operations.

NOTE 19 – COMMITMENTS

The District has committed to approximately of \$100,000 of construction costs for the next fiscal year.

NOTE 20 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 5, 2018, the date on which the financial statements were available to be issued.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 516,249	\$ 516,249	\$ 476,687	\$ (39,562)
State Sources	2,515,651	2,515,651	2,461,804	(53,847)
Federal Sources	52,245	72,446	72,446	-
Interest Income	2,100	2,100	2,599	499
Miscellaneous Income	16,800	16,800	19,011	2,211
Total Revenues	<u>3,103,045</u>	<u>3,123,246</u>	<u>3,032,547</u>	<u>(90,699)</u>
EXPENDITURES				
Current				
Regular Instruction	1,653,485	1,673,686	1,670,593	3,093
Special Instruction	405,527	405,527	415,160	(9,633)
Vocational Instruction	70,347	70,347	118,990	(48,643)
Pupil Services	144,854	144,854	145,599	(745)
General Administration Services	219,749	219,749	228,168	(8,419)
School Administration Services	119,668	119,668	117,711	1,957
Operation and Maintenance	269,683	269,683	314,172	(44,489)
Pupil Transportation	95,997	95,997	131,721	(35,724)
Student Activities	123,735	123,735	137,555	(13,820)
Total Expenditures	<u>3,103,045</u>	<u>3,123,246</u>	<u>3,290,931</u>	<u>(167,685)</u>
Exces (Deficiency) of Revenues over Expenditures	-	-	(258,384)	(258,384)
OTHER FINANCING SOURCES (USES)				
Proceeds from Long-term Debt	-	-	43,449	43,449
Operating Transfer In	9,800	9,800	9,800	-
Operating Transfer Out	(9,800)	(9,800)	(3,892)	(5,908)
Total Other Financing Sources (Uses)	-	-	49,357	37,541
NET CHANGE IN FUND BALANCE	-	-	(209,027)	(220,843)
FUND BALANCE, BEGINNING OF YEAR			<u>757,303</u>	
FUND BALANCE, END OF YEAR			<u>\$ 548,276</u>	

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

PENSION SCHEDULES
Year Ended June 30, 2018

Schedule of Employer's Share of Net Pension Liability
ND Teacher's Fund for Retirement (TFFR)
Last 10 Fiscal Years*

	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.225950%	0.233129%	0.206517%	0.204943%
District's proportionate share of the net pension liability (asset)	3,103,475	3,415,479	2,700,943	2,147,439
District's covered-employee payroll	1,525,095	1,514,698	1,270,298	1,188,780
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.20%	59.20%	62.10%	66.60%

Schedule of Employer Contributions
ND Teacher's Fund for Retirement (TFFR)
Last 10 Fiscal Years*

	2018	2017	2016	2015
Statutorily required contribution	194,450	193,124	161,955	127,793
Contributions in relation to statutorily required contribution	(194,450)	(193,124)	(161,955)	(127,793)
Contribution deficiency (excess)	-	-	-	-
Employer's covered-employee payroll	1,525,095	1,514,698	1,270,298	1,188,780
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	10.75%

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

**The measurement date of the net pension liability is June 30th of the prior year

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Pension Schedules – Continued

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

	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.038233%	0.030810%	0.041357%	0.038341%
District's proportionate share of the net pension liability (asset)	614,530	300,273	281,221	243,359
District's covered-employee payroll	390,298	310,490	368,437	322,980
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

Schedule of Employer Contributions
ND Public Employees Retirement System (PERS)
Last 10 Fiscal Years*

	2018	2017	2016	2015
Statutorily required contribution	28,301	22,479	27,986	22,996
Contributions in relation to statutorily required contribution	(28,568)	(27,604)	(26,232)	(22,996)
Contribution deficiency (excess)	(267)	(5,125)	1,754	-
Employer's covered-employee payroll	390,298	310,490	368,437	322,980
Contributions as a percentage of covered-employee payroll	7.32%	8.89%	7.12%	7.12%

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

**The measurement date of the net pension liability is June 30th of the prior year

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Pension Schedules – Continued

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

	<u>2018</u>
District's proportion of the net pension liability (asset)	0.036077%
District's proportionate share of the net pension liability (asset)	28,537
District's covered-employee payroll	390,298
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total pension liability	59.78%

Schedule of Employer Contributions OPEB
 ND Public Employees Retirement System (PERS)
 Last 10 Fiscal Years*

	<u>2018</u>
Statutorily required contribution	4,537
Contributions in relation to statutorily required contribution	(4,574)
Contribution deficiency (excess)	(37)
Employer's covered-employee payroll	390,298
Contributions as a percentage of covered-employee payroll	1.17%

*Complete data for these schedules is not available prior to 2018

**The measurement date of the net pension liability is June 30th of the prior year

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The School Board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

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

- The annual budget must be prepared, and District taxes must be levied on or before the 15th day of August of each year.
- The taxes levied must be certified to the county auditor by October 10th.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Business 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.
- All appropriations lapse at year-end.

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

Investment amounts reported in June 30, 2017 reflect the following actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by .25% due to inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 4 – NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM CHANGE OF ASSUMPTIONS OPEB

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

NONMAJOR GOVERNMENTAL FUNDS – COMBINING BALANCE SHEET
June 30, 2018

	<u>Food Service</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,566
Total Assets	<u>\$ 2,566</u>
FUND BALANCE	
Assigned	\$ 2,566
Fund Balance	<u>\$ 2,566</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

**NONMAJOR GOVERNMENTAL FUNDS – COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**
June 30, 2018

	<u>Food Service</u>
REVENUES	
Local Sources	\$ 65,763
State Sources	1,210
Federal Sources	51,744
Interest Income	<u>4</u>
Total Revenues	118,721
EXPENDITURES	
Current	
School Food Services	<u>118,632</u>
Total Expenditures	<u>118,632</u>
Excess of Revenues over Expenditures	89
OTHER FINANCING SOURCES	
Operating Transfer In	<u>3,892</u>
Total Other Financing Sources	<u>3,892</u>
NET CHANGE IN FUND BALANCE	3,981
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>(1,415)</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,566</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

SCHEDULE OF RECEIPTS AND DISBURSEMENTS – ACTIVITY FUND
June 30, 2018

Account	Balance July 01, 2017	Deposits and Transfers In	Withdrawals and Transfers Out	Balance June 30, 2018
Class of 2017	\$ 817	\$ -	\$ (817)	\$ -
Class of 2018	1,783	500	(2,223)	60
Class of 2019	2,157	2,910	(2,528)	2,539
Class of 2020	875	5,614	(3,647)	2,842
Class of 2021	-	5,177	(3,623)	1,554
Class of 2022	103	20	-	123
Annual	934	2,545	(3,215)	264
Band/Music	5,249	8,104	(9,491)	3,862
FCCLA	2,471	5,755	(4,188)	4,038
Student Council	2,482	5,275	(5,019)	2,738
Student Athletics	1,987	6,167	(7,909)	245
Co-op Football	1,571	10,160	(8,688)	3,043
Letterman	6,117	3,435	(4,106)	5,446
Football Team Fund	6,058	11,399	(11,681)	5,776
Speech & Drama	4,538	8,306	(7,471)	5,373
Archery	5,172	14,050	(16,234)	2,988
Bobcat Basketball (Girls)	112	2,045	(1,299)	858
Bobcat Basketball (Boys)	105	42	-	147
MNS Co-op Volleyball	1,377	4,640	(3,665)	2,352
Volleyball Team Fund	2,923	1,859	(2,905)	1,877
Dollars for Staff	1,205	540	(400)	1,345
Elementary Fund	4,553	2,836	(3,411)	3,978
Scholarship Funds	6,000	1,500	(1,500)	6,000
Track Team Fund	517	1,971	(941)	1,547
Library Fund	184	2,778	(1,133)	1,829
Science Trips	163	500	(249)	414
S.A.D.D.	1,410	4,838	(5,018)	1,230
FFA	1,472	11,713	(9,783)	3,402
Playground Fund	12,310	718	(40)	12,988
DC Trip Fundraising	522	4,060	(2,705)	1,877
Golf	1,620	4,630	(4,314)	1,936
Pep Club	2,639	-	-	2,639
Satre Memorial	3,159	2	(500)	2,661
Waloch Scholarship	1,054	16	(100)	970
	\$ 83,639	\$ 134,105	\$ (128,803)	\$ 88,941



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

School Board
North Sargent Public School District No. 3
Gwinner, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance 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 North Sargent Public School District No. 3, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the North Sargent Public School District No. 3's basic financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2018-001 and 2018-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Sargent 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 these 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*.

District's Response to Findings

North Sargent Public School District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. North Sargent Public School District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Nadine Julson, LLC
Wahpeton, North Dakota
November 5, 2018

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Report Issued: Unmodified

Internal Control Over Financial Reporting

Material weakness identified?	X	Yes		_____	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes		X	None reported
Noncompliance material to financial statements noted?	_____	Yes		X	No

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 LACK OF SEGREGATION OF DUTIES

Criteria

An appropriate system of internal control has the proper segregation of duties between authorization, custody, record keeping, and reconciliation functions.

Condition

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the District.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the District's financial condition whether due to error or fraud.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Schedule of Findings and Questioned Costs - Continued

2018-002 MATERIAL JOURNAL ENTRIES

Criteria

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

Condition

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

Effect

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

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

There is no disagreement with the audit finding.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2018

Prior Financial Statement Findings:

2017-001

A material weakness was reported for a lack of segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This material weakness continues to exist under the current audit findings as finding number 2018-001.

2017-002

A material weakness was reported for material journal entries.

Corrective Action Plan

The accounting functions should be reviewed to determine if it is feasible for the District to prepare its own financial statements. This material weakness continues to exist under the current audit findings as number 2018-002.