



Devils Lake Public School District No. 1

Devils Lake, North Dakota

Audit Report

For the Year Ended June 30, 2018

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

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DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

School Officials and Audit Personnel

June 30, 2018

SCHOOL OFFICIALS

Lee Ann Johnston	President
Steve Halldorson	Vice-President
Jeff Frith	Board Member
Jason Hodous	Board Member
Cory Meyer	Board Member
Scott Privratsky	Superintendent
Melissa Haahr	Business Manager

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701) 239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITAL
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BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

School Board of Directors
Devils Lake Public School District No. 1
Devils Lake, 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 Devils Lake Public School District No. 1, Devils Lake, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Devils Lake Public School District No. 1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, 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.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, Devils Lake Public School District No. 1 adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension & OPEB schedules, and the notes to the required supplementary information* on pages 29-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 School District's basic financial statements. The *combining balance sheet - nonmajor governmental funds, combining statement of revenues, expenditures and changes in fund balances - nonmajor governmental funds, and schedule of expenditures of federal awards*, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018 on our consideration of the Devils Lake Public School District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Devils Lake Public School District No. 1's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 13, 2018

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 5,934,788
Investment with Fiscal Agent	1,343,640
Intergovernmental Receivable	891,676
Due from County Treasurer	72,020
Prepaid Expenses	309,766
Taxes Receivable	202,213
Capital Assets, Net	<u>10,858,254</u>
Total Assets	<u>\$ 19,612,357</u>
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pension & OPEB	<u>\$ 5,713,409</u>
LIABILITIES	
Accounts Payable	\$ 184,254
Teacher Contracts Payable	1,143,169
Salaries and Benefits Payable	579,764
Health Insurance Payable	258,485
Interest Payable	4,670
Long-Term Liabilities	
Due Within One Year	
Long Term Debt	16,118
Early Retirement Payable	227,580
Compensated Absences Payable	9,016
Due After One Year	
Long Term Debt	2,568,777
Early Retirement Payable	149,264
Compensated Absences Payable	81,140
Net Pension & OPEB Liability	<u>26,350,332</u>
Total Liabilities	<u>\$ 31,572,569</u>
DEFERRED INFLOWS OF RESOURCES	
Derived from Pension & OPEB	<u>\$ 1,816,268</u>
NET POSITION	
Net Investment in Capital Assets	\$ 8,358,254
Restricted for:	
Capital Projects	634,549
Debt Service	1,412,182
Special Purposes	326,097
Unrestricted	<u>(18,794,153)</u>
Total Net Position	<u><u>\$ (8,063,071)</u></u>

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Statement of Activities

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
				Governmental Activities
Governmental Activities				
Regular Instruction	\$ 9,936,859	\$ 7,820	\$ -	\$ (9,929,039)
Special Education	3,004,720	-	1,912,518	(1,092,202)
Vocational Education	1,514,212	66,612	541,312	(906,288)
Federal Programs	1,370,538	-	1,617,770	247,232
District Wide Services	2,719,873	-	-	(2,719,873)
Administration	690,480	-	-	(690,480)
School Food Services	1,230,490	542,829	699,901	12,240
Operations and Maintenance	1,749,049	-	-	(1,749,049)
Transportation	871,721	-	507,708	(364,013)
Co-curricular Activities	964,025	109,711	-	(854,314)
Other Programs & Services	21,785	-	-	(21,785)
Interest and Fees on Long-Term Debt	64,591	-	-	(64,591)
Total Governmental Activities	\$ 24,138,343	\$ 726,972	\$ 5,279,209	\$ (18,132,162)
<u>General Revenues</u>				
Property Taxes				
Levied for General Purposes				\$ 3,104,334
Levied for Special Reserve				120,120
Levied for Capital Projects				400,949
Levied for Debt Service				218,865
State Aid-Unrestricted				14,450,069
Interest Earnings				24,158
Miscellaneous Revenue				348,323
Change in Investment Market Value				(20,337)
Total General Revenues				\$ 18,646,481
<u>Changes in Net Position</u>				
Net Position - July 1				\$ (8,348,192)
Prior Period Adjustment				(229,198)
Net Position - July 1, as restated				\$ (8,577,390)
Net Position - June 30				\$ (8,063,071)

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Balance Sheet – Governmental Funds

June 30, 2018

	General	Sinking & Interest Building Bonds 2009	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 4,832,752	\$ 60,914	\$ 1,041,122	\$ 5,934,788
Restricted Investment	-	1,343,640	-	1,343,640
Intergovernmental Receivable	887,529	-	4,147	891,676
Due from County Treasurer	57,972	4,108	9,940	72,020
Prepaid Expenses	309,766	-	-	309,766
Taxes Receivable	162,205	11,778	28,230	202,213
Total Assets	\$ 6,250,224	\$ 1,420,440	\$ 1,083,439	\$ 8,754,103
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable & Other Payables	\$ 184,254	\$ -	\$ -	\$ 184,254
Teacher Contracts Payable	1,143,169	-	-	1,143,169
Salaries and Benefits Payable	579,764	-	-	579,764
Health Insurance Payable	216,999	-	41,486	258,485
Total Liabilities	\$ 2,124,186	\$ -	\$ 41,486	\$ 2,165,672
Deferred Inflows of Resources				
Uncollected Taxes	\$ 162,205	\$ 11,778	\$ 28,230	\$ 202,213
Total Liabilities and Deferred Inflows of Resources	\$ 2,286,391	\$ 11,778	\$ 69,716	\$ 2,367,885
Fund Balances				
Non-spendable				
Prepaid Expenses	\$ 309,766	\$ -	\$ -	\$ 309,766
Restricted				
Capital Projects	-	-	613,036	613,036
Debt Service	-	1,408,662	81,044	1,489,706
Assigned				
Special Reserve	-	-	254,650	254,650
Food Service	-	-	64,993	64,993
Unassigned	3,654,067	-	-	3,654,067
Total Fund Balances	\$ 3,963,833	\$ 1,408,662	\$ 1,013,723	\$ 6,386,218
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,250,224	\$ 1,420,440	\$ 1,083,439	\$ 8,754,103

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total Fund Balances for Governmental Funds \$ 6,386,218

Total net position reported for governmental 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. 10,858,254

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 deferred revenues in the funds. 202,213

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

Deferred Outflows Related to Pensions & OPEB	\$ 5,713,409	
Deferred Inflows Related to Pensions & OPEB	<u>(1,816,268)</u>	3,897,141

Long-term liabilities applicable to the school district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position. Balances at June 30, 2018 are:

Long Term Debt	\$ (2,584,895)	
Interest Payable	(4,670)	
Early Retirement Payable	(376,844)	
Compensated Absences Payable	(90,156)	
Net Pension & OPEB Liability	<u>(26,350,332)</u>	<u>(29,406,897)</u>

Total Net Position of Governmental Activities \$ (8,063,071)

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 For the Year Ended June 30, 2018

	General	Sinking & Interest Building Bonds 2009	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 3,648,661	\$ 215,374	\$ 1,067,519	\$ 4,931,554
State Sources	17,411,608	-	-	17,411,608
Federal Sources	1,617,770	-	699,901	2,317,671
Total Revenues	\$ 22,678,039	\$ 215,374	\$ 1,767,420	\$ 24,660,833
EXPENDITURES				
Current				
Regular Instruction	\$ 9,320,165	\$ -	\$ -	\$ 9,320,165
Special Education	2,897,490	-	-	2,897,490
Vocational Education	1,426,226	-	-	1,426,226
Federal Programs	1,299,162	-	-	1,299,162
District Wide Services	2,477,946	-	156,851	2,634,797
Administration	665,239	-	-	665,239
School Food Services	-	-	1,192,629	1,192,629
Operations and Maintenance of Plant	1,660,133	-	-	1,660,133
Transportation	929,947	-	-	929,947
Co-curricular Activities	877,714	-	-	877,714
Other Programs and Services	1,067	-	-	1,067
Debt Service				
Principal	-	-	16,193	16,193
Interest	-	56,250	5,338	61,588
Fees	-	3,325	127	3,452
Total Expenditures	\$ 21,555,089	\$ 59,575	\$ 1,371,138	\$ 22,985,802
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,122,950	\$ 155,799	\$ 396,282	\$ 1,675,031
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 100,000	\$ -	\$ -	\$ 100,000
Change in investment market value	-	(20,337)	-	(20,337)
Transfers Out	-	-	(100,000)	(100,000)
Total Other Financing Sources and Uses	\$ 100,000	\$ (20,337)	\$ (100,000)	\$ (20,337)
Net Change in Fund Balances	\$ 1,222,950	\$ 135,462	\$ 296,282	\$ 1,654,694
Fund Balances - July 1	\$ 2,740,883	\$ 1,273,200	\$ 717,441	\$ 4,731,524
Fund Balances - June 30	\$ 3,963,833	\$ 1,408,662	\$ 1,013,723	\$ 6,386,218

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net Change in *Fund Balances* - Total Governmental Funds \$ 1,654,694

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	\$ 232,835	
Current Year Depreciation Expense	<u>(501,606)</u>	(268,771)

In the Statement of Activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements do not recognize losses on disposal of capital assets. (9,921)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The issuance of long-term debt provides current financial resources to governmental funds, however, the debt principal issued increases liabilities in the statement of net position. This is the amount of debt repayment. 16,193

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.

Decrease in Early Retirement Payable	\$ 96,493	
Increase in Compensated Absences Payable	(18,193)	
Decrease in Interest Payable	<u>449</u>	78,749

The Net Pension & OPEB Liability, and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are noreported in the funds.

Increase in Net Pension & OPEB Liability	\$ (122,451)	
Decrease in deferred outflows of resources related to Pensions and OPEB	(497,972)	
Increase in deferred inflows of resources related to Pensions and OPEB	<u>(348,368)</u>	(968,791)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable. 12,166

Change in Net Position of Governmental Activities \$ 514,319

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Statement of Fiduciary Assets and Liabilities - Agency Funds

June 30, 2018

	Agency Funds
ASSETS	
Cash	\$ 1,663,612
Prepaid Expenses	9,860
Accounts & Intergovernmental Receivable	<u>283,343</u>
 Total Assets	 <u><u>\$ 1,956,815</u></u>
 LIABILITIES	
Salaries Payable	\$ 20,718
Health and Life Insurance Payable	59,447
Contracts Payable	44,023
Due to Other Units	1,041,717
Due to Student Activities Groups	<u>790,910</u>
 Total Liabilities	 <u><u>\$ 1,956,815</u></u>

The notes to the financial statements are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Notes to the Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Devils Lake Public School District No. 1, Devils Lake, North Dakota, (hereafter referred to as the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the School District. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the School District 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 the School District.

Based on these criteria, there are no component units to be included within the Devils Lake Public School District No. 1 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 School District. 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, and other non-exchange transactions.

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

Fund Financial Statements. The fund financial statements provide information about the School District's funds including its fiduciary funds. Separate statements for each fund category—*governmental* and *fiduciary*—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School District reports the following major governmental funds:

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

Sinking & Interest Building Bonds 2009 Fund. This fund is used to account for financial resources to be used for payment of long-term debt principal, interest and related costs of the \$2,500,000 general obligation school building bonds (series 2009).

The School District reports the following fund type:

Agency Funds. These fund accounts for assets by the School District in a custodial capacity as an agent on behalf of others. The School District's agency fund is used to account for various deposits of the student activity funds and to other governmental units.

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. Non-exchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School 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. When applicable, proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

When both restricted and unrestricted resources are available for use, it is the School 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, money market accounts, and highly liquid short-term investments with original maturities of three months or less. The School District also has an investment in treasury strips held by a fiscal agent.

E. Capital Assets

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

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

Asset Class	Useful Life
Land	Indefinite
Buildings	50
Improvements	10-50
Playground Equipment	20
Vehicles	15
Equipment/Furniture	10
Copy Machines	5

F. Compensated Absences

Vested or accumulated unused personal leave for qualified employees is reported in the government-wide statement of net position. Each teacher is credited with three days of personal leave at the beginning of each year. Each teacher is allowed to accumulate personal leave of up to a total of seven days and teachers are paid \$100 for each unused personal day. Vested and accumulated personal leave is reported in the government-wide statement of net position.

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations, such as compensated absences and early retirement payable, are reported in the governmental activities statement of net position. Bond premiums, discounts and issuance costs, when applicable, 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pensions

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

I. Other Post-Employment Benefits (OPEB)

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

J. Fund Balances

Fund Balance Spending Policy

It is the policy of the School District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the School District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Minimum Fund Policy

The Devils Lake Public School District budget committee established a minimum of 10% general fund carryover balance target several years ago to help with financial stability. The minimum 10% fund balance carryover is a part of the budget recommendation adopted by the School District's Board of Directors each fiscal year. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district.

Non-Spendable Fund Balance

Non-spendable fund balance consists of prepaid items.

Restricted Fund Balances

Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3rd parties (State & Federal governments for various grants & reimbursements).

Unassigned Fund Balances

Unassigned fund balances are reported in the general fund.

K. Net Position

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt issued to finance/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 are due to restricted tax levies and bond indenture requirements for our capital projects/debt service.

Unrestricted net position is primarily unrestricted amounts related to the general fund, and negative net position. Unrestricted net position is available to meet the district's ongoing obligations.

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

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

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

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

At year ended June 30, 2018, the School District's carrying amount of deposits was \$7,598,400 and the bank balances totaled \$7,725,100. Of the bank balances, \$1,252,377 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements – Continued

Treasury strips reported at cost/par value totaling \$1,310,679 are being held as investments to retire debt on December 15, 2024. At June 30, 2018, the treasury strips have a market value of \$1,343,320. The amounts are invested by a broker on behalf of the School District in U.S. Treasury bonds.

Credit Risk

The School 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.

Interest Rate Risk

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

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2018:

	Quoted Prices In Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Asset				
Government Bonds	\$ -	\$ 1,343,320	\$ -	\$ 1,343,320

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
Notes to the Financial Statements – Continued

NOTE 4: PROPERTY TAXES

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.

NOTE 5: CAPITAL ASSETS

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

Governmental Activities	Balance Jul 1	Increases	Decreases	Balance Jun 30
<i>Capital assets not being depreciated:</i>				
Land	\$ 170,100	\$ -	\$ -	\$ 170,100
Construction in Progress	14,586	46,235	-	60,821
Total Capital Assets, Not Being Depreciated	\$ 184,686	\$ 46,235	\$ -	\$ 230,921
<i>Capital assets being depreciated:</i>				
Vehicles	\$ 2,106,348	\$ 186,600	\$ 104,401	\$ 2,188,547
Copy Machines	-	-	-	-
Playground Equipment	215,979	-	-	215,979
Equipment/Furniture	737,953	-	-	737,953
Buildings	17,985,121	-	-	17,985,121
Total Capital Assets, Being Depreciated	\$ 21,045,401	\$ 186,600	\$ 104,401	\$ 21,127,600
<i>Less Accumulated Depreciation for:</i>				
Vehicles	\$ 1,086,109	\$ 108,285	\$ 94,480	\$ 1,099,914
Copy Machines	-	-	-	-
Playground Equipment	102,091	10,549	-	112,640
Equipment/Furniture	376,009	49,409	-	425,418
Buildings	8,528,932	333,363	-	8,862,295
Total Accumulated Depreciation	\$ 10,093,141	\$ 501,606	\$ 94,480	\$ 10,500,267
Total Capital Assets Being Depreciated, Net	\$ 10,952,260	\$ (315,006)	\$ 9,921	\$ 10,627,333
Governmental Activities Capital Assets, Net	\$ 11,136,946	\$ (268,771)	\$ 9,921	\$ 10,858,254

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

Governmental Activities	Amounts
Regular Instruction	\$ 214,563
Special Education	17,777
Vocational Education	24,047
Administration	7,151
Food Services	10,445
Operations/Maintenance	44,970
Transportation	88,303
Co-Curricular	94,350
Total Depreciation Expense	\$ 501,606

NOTE 6: LONG-TERM LIABILITIES

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

	Bal. Jul 1 (Restated)	Increases	Decreases	Balance June 30	Due Within One Year
General Obligation Bonds	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000	\$ -
Special Assessments	101,088	-	16,193	84,895	16,118
Early Retirement Agreements	473,337	-	96,493	376,844	227,580
Compensated Absences *	71,963	18,193	-	90,156	9,016
Net Pension & OPEB Liability *	26,227,881	122,451	-	26,350,332	-
Total Governmental Activities	\$ 29,374,269	\$ 140,644	\$ 112,686	\$ 29,402,227	\$ 252,714

* - The change in compensated absences and net pension & OPEB liability are shown as net changes because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Schedule of Maturities

Debt service requirements on long-term debt at June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities			
	G.O. Bonds Payable		Special Assessments	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ 56,250	\$ 16,118	\$ 4,439
2020	-	56,250	16,118	3,545
2021	-	56,250	16,118	2,650
2022	-	56,250	8,543	1,756
2023	-	56,250	8,543	1,316
2024 - 2028	2,500,000	84,375	19,455	1,749
Totals	\$ 2,500,000	\$ 365,625	\$ 84,895	\$ 15,455

NOTE 7: PENSION PLANS

General Information about the TFFR Pension Plan

North Dakota Teachers' Fund for Retirement TFFR

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher’s salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches a 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 70 ½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Inflows of Resources Related to Pensions

At June 30, 2018, the School District reported a liability of \$21,205,036 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district’s proportion of the net pension liability was based on the district’s share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2017, the district’s proportion was 1.543840%, a decrease of .043763%.

For the year ended June 30, 2018, the district recognized pension expense of \$1,750,278. 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	\$ 81,336	\$ 231,483
Changes of Assumptions	1,511,416	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	292,901	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	1,384,833
District Contributions Subsequent to the Measurement Date	1,308,008	-
Total	\$ 3,193,661	\$ 1,616,316

\$1,308,008, reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	\$ 75,043
2019	534,471
2020	246,822
2021	(257,817)
2022	(229,146)
Thereafter	(100,036)

Actuarial Assumptions

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

Inflation	2.75%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment Rate of Return	7.75%, net of investment expenses
Cost-of-Living Adjustments	None

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements – Continued

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.

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 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%	.80%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0.00%

Discount Rate

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District’s Proportionate Share of the Net Pension Liability	\$ 28,192,472	\$ 21,205,036	\$ 15,388,207

General Information about the NDPERS Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition 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 covered compensation. Member contribution rates are 7% and employer contributions rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

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

At June 30, 2018, the School District reported a liability of \$4,916,962 for its proportionate share of 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 School 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 School District's proportion was 0.305909%, which was an increase of .024833% from its proportion measured at June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$765,729. At June 30, 2018, the School 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	\$ 29,226	\$ 23,956
Changes of Assumptions	2,016,286	110,900
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	66,129	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	160,101	50,718
District Contributions Subsequent to the Measurement Date	194,715	-
Total	\$ 2,466,457	\$ 185,574

\$194,715 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	\$ 450,104
2019	540,841
2020	472,228
2021	401,410
2022	221,585

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	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 – 40	7.50%
41 – 49	6.00%	
50+	5.00%	
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	-.45%
Global Real Assets	20%	5.38%
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 Employer’s proportionate share of the net pension liability to changes in the discount rate

The following presents the School District’s proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what their 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%)
School District’s Proportionate Share of the Net Pension Liability	\$ 6,674,926	\$ 4,916,962	\$ 3,454,409

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued NDPERS financial report.

NOTE 8: OPEB PLAN

General Information about the OPEB Plan

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.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements – Continued

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

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

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

At June 30, 2018, the School District reported a liability of \$228,334 for their proportionate shares 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 School District's proportion of the net OPEB liability was based on their share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017 the School District's proportion was 0.288661 percent.

For the year ended June 30, 2018 the School District recognized OPEB expense of \$27,496. At June 30, 2018 the School 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	\$ -	\$ 5,569
Changes of Assumptions	22,115	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	-	8,633
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	-	176
Employer Contributions Subsequent to the Measurement Date	31,176	-
Total	\$ 53,291	\$ 14,378

\$31,176 was reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018.

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

2018	\$ 405
2019	405
2020	405
2021	405
2022	2,563
2023	2,563
Thereafter	991

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 or return	7.50%, net of investment expenses
Cost of living adjustments	None

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the 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 Employer’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Proportionate Share of the Net OPEB Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District’s Proportionate Share of the Net OPEB Liability	\$ 285,846	\$ 228,334	\$ 179,036

NOTE 9: RISK MANAGEMENT

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

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The School District pays an annual premium to NDRIF for its general liability, automobile insurance coverage and inland marine. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile and \$240,297 for mobile equipment and portable property. The School District also insures machinery and equipment with Hartford Steam Boiler Inspection and Insurance Company. Coverage is limited to \$23,442,387.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements – Continued

The School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District has worker’s compensation with the Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 10: EARLY RETIREMENT

The School District offers early retirement payments to professional employees under School Board policy “Retirement Incentive for Professional Staff Members”. Under this policy, teachers and administrators are eligible for a pre-determined one-time payment based on a proportion of the current annual salary at the time of retirement. To be eligible for the plan an employee must meet one of the following requirements:

- Teaching employee has attained the earliest occurring of the following eligibility standards of the Teacher’s Fund for retirement (TFFR) of North Dakota for a normal (unreduced service retirement: the employee has a combined age and years of service credit equal to 85 as determined by TFFR; or, the employee has attained age 65.
- Professional staff members must have completed 15 years of consecutive full-time certified employment in the School District to be eligible for retirement under NDPERS.

A liability for remaining early retirement payments at year-end is reported in the statement of net position. For the year ended June 30, 2018 the School District had fourteen employees who received this benefit for a cost to the School District of \$218,034. The balance due at June 30, 2018 is due as follows:

Year Ending June 30	Early Retirement
2019	\$ 227,580
2020	105,893
2021	43,371
Totals	\$ 376,844

NOTE 11: OPERATING LEASES

The School District leases copiers under non-cancelable operating leases. Total costs for such leases were \$37,128 for the year ended June 30, 2018.

The future minimum lease payments for these leases are as follows:

Year Ending June 30	Operating Lease
2019	\$ 37,128
2020	37,128
2021	37,128
Total	\$ 111,384

NOTE 12: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2018:

	Transfers In	Transfers Out
Major Funds		
General Fund	\$ 100,000	\$ -
Non-Major Funds		
Special Reserve Fund	-	100,000
Total Transfers	\$ 100,000	\$ 100,000

Funds were transferred from the special reserve fund to the general fund for capital improvement projects.

NOTE 13: TAX ABATEMENTS

Devils Lake Public School District No. 1 and political subdivisions within Ramsey County can negotiate property tax abatement agreements with individuals and various commercial entities/businesses. Ramsey County and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at June 30, 2018.

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

New and Expanding Business

Businesses that are primarily industrial, commercial, retail or service are eligible for property tax incentives for new and expanding businesses if they meet state requirements (NDCC 40.57.1-03). After negotiation with a potential project operator, a municipality may grant a partial or complete exemption from ad valorem taxation on all buildings, structures, fixtures, and improvements used in or necessary to the operation of a project for a period not exceeding 5 years from the date of commencement of project operations. A municipality may also grant a partial or complete exemption from ad valorem taxation on buildings, structures, fixtures, and improvements used in or necessary to the operation of a project that produces or manufactures a product from agricultural commodities for all or part of the sixth year through the tenth year from the date of commencement of project operations.

General criteria - before a municipality may grant a partial or complete exemption from ad valorem taxation:

- Governing body of the municipality must have received certification of the department of commerce division of economic development and finance that the project is a private sector business as defined in subsection 3 of section 40-57.1-02
- Evaluation of the positive or adverse consequences for existing retail sector businesses
- Evaluation of the short-term and long-term effects for other property taxpayers in the municipality from granting the exemption
- A written agreement with the project operator, including performance requirements for which the exemption may be terminated by the governing body of the municipality if those requirements are not met
- Evaluation of whether the project operator would locate the project within the municipality without the exemption
- Negotiations with potential project operators for tax exemptions or payments in lieu of taxes must be carried on by the city council or commission if the project is proposed to be located within the boundaries of a city, and by the county board if project is located outside the corporate limits of any city

Exemption Criteria - Amount of exemption is per the following schedule: Year 1 - 100%, Year 2 - 100%, Year 3 - 75%, Year 4 - 50%, Year 5 - 25%.

FY2018 reduction in taxes due to agreements with other entities – \$22,071

Public Charity Exemption

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

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Notes to the Financial Statements – Continued

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

Exemption Criteria

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

FY2018 reduction in taxes due to agreements with other entities – \$47,818

NOTE 14: PRIOR PERIOD ADJUSTMENTS

Change in Accounting Principle - GASB 75 - OPEB

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefit Plans Other than Pensions*.

Governmental Activities	Amounts
Beginning Net Position, as previously reported	\$ (8,348,192)
Adjustments to restate the July 1, 2017 Net Position:	
Net OPEB Liability	(229,198)
Net Position July 1, 2017, as restated	\$ (8,577,390)

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Budgetary Comparison Schedule - General Fund

December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local Sources	\$ 3,665,200	\$ 3,665,200	\$ 3,648,661	\$ (16,539)
State Sources	16,577,774	16,798,109	17,411,608	613,499
Federal Sources	1,774,878	1,778,793	1,617,770	(161,023)
Other Sources	1,000	1,000	-	(1,000)
Total Revenues	\$ 22,018,852	\$ 22,243,102	\$ 22,678,039	\$ 434,937
EXPENDITURES				
Current:				
Regular Instruction	\$ 9,489,725	\$ 9,489,725	\$ 9,320,165	\$ 169,560
Special Education	2,768,185	2,768,185	2,897,490	(129,305)
Vocational Education	1,388,615	1,388,615	1,426,226	(37,611)
Federal Programs	1,394,878	1,398,793	1,299,162	99,631
District Wide Services	2,538,110	2,658,445	2,477,946	180,499
Administration	678,105	678,105	665,239	12,866
Operations and Maintenance	1,686,225	1,686,225	1,660,133	26,092
Transportation	1,002,925	1,002,925	929,947	72,978
Co-curricular Activities	1,018,362	1,018,362	877,714	140,648
Other Programs & Services	11,070	11,070	1,067	10,003
Total Expenditures	\$ 21,976,200	\$ 22,100,450	\$ 21,555,089	\$ 545,361
Excess (Deficiency) of Revenues Over Expenditures	\$ 42,652	\$ 142,652	\$ 1,122,950	\$ 980,298
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Net Changes in Fund Balances	\$ 42,652	\$ 242,652	\$ 1,222,950	\$ 980,298
Fund Balances - July 1	\$ 2,835,435	\$ 2,835,435	\$ 2,740,883	\$ (94,552)
Fund Balances - June 30	\$ 2,878,087	\$ 3,078,087	\$ 3,963,833	\$ 885,746

The accompanying required supplementary information notes are an integral part of this schedule.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Employer's Share of Net Pension Liability and Employer Contributions
 For the Year Ended December 31, 2017

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

	2018	2017	2016	2015
School District's proportion of the net pension liability (asset)	1.543840%	1.587603%	1.654329%	1.710287%
School District's proportionate share of the net pension liability (asset)	\$ 21,205,036	\$ 23,259,323	\$ 21,636,228	\$ 17,920,776
School District's covered-employee payroll	\$ 10,420,476	\$ 10,315,055	\$ 10,175,860	\$ 9,920,576
School 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
 North Dakota Teachers Fund for Retirement
 Last 10 Fiscal Years**

	2018	2017	2016	2015
Statutorily required contribution	\$ 1,328,611	\$ 1,315,170	\$ 1,297,422	\$ 1,066,462
Contributions in relation to the statutorily required contribution	\$ 1,328,611	\$ 1,315,170	\$ 1,297,422	\$ 1,066,462
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 10,420,476	\$ 10,315,055	\$ 10,175,860	\$ 9,920,576
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	10.75%

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

	2018	2017	2016	2015
School District's proportion of the net pension liability (asset)	0.305909%	0.281076%	0.287721%	0.295803%
School District's proportionate share of the net pension liability (asset)	\$ 4,916,962	\$ 2,739,360	\$ 1,956,454	\$ 1,877,525
School District's covered-employee payroll	\$ 3,122,854	\$ 2,832,581	\$ 2,563,249	\$ 2,491,788
School 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%

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Employer's Share of Net Pension Liability and Employer Contributions - Continued

**Schedule of Employer Contributions
North Dakota Public Employees Retirement System
Last 10 Fiscal Years**

	2018	2017	2016	2015
Statutorily required contribution	\$ 226,445	\$ 205,074	\$ 194,699	\$ 177,415
Contributions in relation to the statutorily required contribution	\$ 225,463	\$ 210,960	\$ 209,352	\$ 177,415
Contribution deficiency (excess)	\$ 982	\$ (5,886)	\$ (14,653)	\$ -
District's covered-employee payroll	\$ 3,122,854	\$ 2,832,581	\$ 2,563,249	\$ 2,491,788
Contributions as a percentage of covered-employee payroll	7.22%	7.45%	8.17%	7.12%

The notes to the required supplementary information are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions
For the Year Ended December 31, 2017

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

NDPERS - OPEB	2018
School District's proportion of the net OPEB liability (asset)	0.288661%
School District's proportionate share of the net OPEB liability (asset)	\$ 228,334
School District's covered-employee payroll	\$ 3,122,854
School District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

**Schedule of Employer Contributions
North Dakota Public Employees Retirement System
Last 10 Fiscal Years**

NDPERS - OPEB	2018
Statutory required contribution	\$ 36,301
Contributions in relation to the statutory required contribution	\$ 36,098
Contribution deficiency (excess)	\$ 203
District's covered-employee payroll	\$ 3,122,854
Contributions as a percentage of covered-employee payroll	1.16%

The notes to the required supplementary information are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The School District adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

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

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.
- 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: SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

NOTE 3: CHANGES OF ASSUMPTIONS – PENSION AND OPEB

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

NOTE 4: LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The school board amended the school district budget for FY2018 as follows:

	Original Budget	Budget Amendment	Amended Budget
Major Fund			
General Fund Revenues	\$ 22,018,852	\$ 224,250	\$ 22,243,102
General Fund Expenditures	21,976,200	124,250	22,100,450

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018

	Food Service Fund	Special Reserve	Building Fund	Special Assessments	Total Nonmajor Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 102,332	\$ 252,377	\$ 605,461	\$ 80,952	\$ 1,041,122
Intergovernmental Receivable	4,147	-	-	-	4,147
Due from County Treasurer	-	2,273	7,575	92	9,940
Taxes Receivable	-	6,454	21,513	263	28,230
Total Assets	\$ 106,479	\$ 261,104	\$ 634,549	\$ 81,307	\$ 1,083,439
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Health Insurance Payable	\$ 41,486	\$ -	\$ -	\$ -	\$ 41,486
Deferred Inflows of Resources					
Uncollected Taxes	\$ -	\$ 6,454	\$ 21,513	\$ 263	\$ 28,230
Total Liabilities and Deferred Inflows of Resources	\$ 41,486	\$ 6,454	\$ 21,513	\$ 263	\$ 69,716
Fund Balances					
Restricted					
Debt Service	\$ -	\$ -	\$ -	\$ 81,044	\$ 81,044
Capital Projects	-	-	613,036	-	\$ 613,036
Assigned					
Special Revenue Fund (Special Reserve)	-	254,650	-	-	254,650
Special Revenue Fund (Food Service)	64,993	-	-	-	64,993
Total Fund Balances	\$ 64,993	\$ 254,650	\$ 613,036	\$ 81,044	\$ 1,013,723
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 106,479	\$ 261,104	\$ 634,549	\$ 81,307	\$ 1,083,439

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
 For the Year Ended June 30, 2018

	Food Service Fund	Special Reserve	Building Fund	Special Assessments	Total Nonmajor Governmental Funds
REVENUES					
Local Sources	\$ 542,829	\$ 120,157	\$ 399,632	\$ 4,901	\$ 1,067,519
Federal Sources	699,901	-	-	-	699,901
Total Revenues	\$ 1,242,730	\$ 120,157	\$ 399,632	\$ 4,901	\$ 1,767,420
EXPENDITURES					
Current:					
District Wide Services	\$ -	\$ -	\$ 156,851	\$ -	\$ 156,851
School Food Services	1,192,629	-	-	-	1,192,629
Debt Service:					
Principal	-	-	-	16,193	16,193
Interest and Service Charges	-	-	-	5,338	5,338
Fees	-	-	-	127	127
Total Expenditures	\$ 1,192,629	\$ -	\$ 156,851	\$ 21,658	\$ 1,371,138
Excess (Deficiency) of Revenues Over Expenditures	\$ 50,101	\$ 120,157	\$ 242,781	\$ (16,757)	\$ 396,282
OTHER FINANCING SOURCES (USES)					
Transfers Out	\$ -	\$ (100,000)	\$ -	\$ -	\$ (100,000)
Net Change in Fund Balances	\$ 50,101	\$ 20,157	\$ 242,781	\$ (16,757)	\$ 296,282
Fund Balances - July 1	\$ 14,892	\$ 234,493	\$ 370,255	\$ 97,801	\$ 717,441
Fund Balances - June 30	\$ 64,993	\$ 254,650	\$ 613,036	\$ 81,044	\$ 1,013,723

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA Number	Program Title	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the State Department of Public Instruction			
10.555	National School Lunch Program	I006	\$ 413,884
10.555	Commodity Supplemental Food Program	I015	91,018 *
10.559	Summer Food Service Program For Children		5,323
10.553	School Breakfast Program <i>Child Nutrition Cluster</i>	I006	131,101
			<u>\$ 641,326</u>
10.582	Fresh Fruit and Vegetable Program	I009	62,300
10.560	State Administrative Expenses for Child Nutrition		4,922
			<u>62,300</u>
Total Department of Agriculture			<u>\$ 708,548</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Assistance			
84.041	Impact Aid	None	\$ 128,783
84.060	Indian Education-Grants to Local Education Agencies	None	119,982
Passed through the State Department of Public Instruction			
84.010	Title I Grants to Local Education Agencies	I017 & I019	671,166
84.287	Twenty-First Century Community Learning Centers	I066	321,755
84.367	Supporting Effective Instruction State Grant	I046	398,447
84.424	Student Support and Academic Enrichment Program		17,882
Passed through the State Board of Vocational Education			
84.048	Career and Technical Education - Basic Grants to States	None	127,395
Passed through to Subrecipients			
84.287	Twenty-First Century Community Learning Centers	I066	405,218
			<u>405,218</u>
Total U.S. Department of Education			<u>\$ 2,190,628</u>
Total Expenditures of Federal Awards			<u>\$ 2,899,176</u>

* - Noncash assistance

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Notes to The Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

NOTE 1: BASIS OF PRESENTATION / ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Devils Lake Public School District under programs of the federal government for the year ended June 30, 2018. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the Devils Lake Public School District, it is not intended to and does not present the financial position or changes in net position of the Devils Lake Public School District. Expenditures represent only the federally funded portions of the program. School District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3: NON-CASH AWARDS

The amount of commodities reported on the schedule is the value of the supplemental food program distributed by the district during the year as priced by the North Dakota Department of Public Instruction.

NOTE 4: SCHOOL WIDE PROGRAMS

The Devils Lake Public School District operates a 'schoolwide program' in elementary buildings. Using federal funding, schoolwide programs are designed to provide an entire educational program within a school for all students, rather than limit services to certain targeted individuals. The federal program amount expended by the district in the schoolwide program for Title I (84.010) was \$671,166.

NOTE 5: PASS-THROUGH GRANT NUMBER

For Federal programs marked "None", the Devils Lake Public School District was unable to obtain a pass-through grant number.

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
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**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**

Independent Auditor’s Report

School Board of Directors
Devils Lake Public School District No. 1
Devils Lake, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Devils Lake Public School District No. 1, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Devils Lake Public School District No. 1’s basic financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Devils Lake Public School District No. 1’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

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* - Continued

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 13, 2018

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

School Board of Directors
Devils Lake Public School District No. 1
Devils Lake, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the Devils Lake Public School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Devils Lake Public School District No. 1's major federal program for the year ended June 30, 2018. The Devils Lake Public School District No. 1's major federal program is identified in the summary of auditor's results section of the accompanying schedule of auditor's results, findings, and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Devils Lake Public School District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

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* - Continued

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

Devils Lake Public School District No. 1's response to the noncompliance findings identified in our audit is described in the accompanying summary of auditor's results, findings, and question costs and management's corrective action plan. Devils Lake Public School District No. 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying Summary of Auditor's Results, Findings, and Questioned Costs as item 2018-001 that we consider to be material weaknesses.

Devils Lake Public School District No. 1's response to the internal control over compliance findings identified in our audit is described in the accompanying summary of auditor's results, findings, and question costs and management's corrective action plan. Devils Lake Public School District No. 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Devils Lake Public School District No. 1 as of and for the year ended June 30, 2018, and have issued our report thereon dated November 13, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

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* - Continued

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 13, 2018

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1
 Summary of Auditor's Results, Findings, and Questioned Costs
 For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> </u> Yes	<u> X </u> None	Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None	Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None	Noted

Federal Awards

Internal Control Over Major Programs:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None	noted
Reportable conditions identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None	noted
Type of Auditor's Report Issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with CFR §200.516 (Uniform Guidance) requirements?	<u> X </u> Yes	<u> </u> None	noted

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.284	Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

No matters were reported.

DEVILS LAKE PUBLIC SCHOOL DISTRICT NO. 1

Summary of Auditor's Results, Findings, and Questioned Costs - Continued

Section III - Federal Award Findings and Questioned Costs

2018-001 – CFDA 84.284 - 21st Century Community Learning Centers Noncompliance

Condition

Devils Lake Public School District personnel are not properly verifying the 25% local match requirement for the 21st Century Grant.

Effect

Devils Lake Public School District had \$679,357.03 of 21st Century expenses for fiscal year 2018. The local match (25%) requirement for the year amounts to \$169,839.26. The total local match from the participating schools amounted to \$150,352.88 which amounts to a shortfall of \$19,486.38.

Cause

The internal controls to verify that the 25% local match requirement is being met are not adequate. Currently, the 21st Century Grant Coordinator calculates the 25% matching requirement each month based on what expenses are submitted by each school. There is not a review for accuracy completed by a second school official.

Criteria

Per review of the Grant Award and the Northeast Educational Services Cooperative (NESC) 21st Century Sustainability Plan, The NESC schools chose to provide a 25% local donation rather than charge students. The NESC administers the 21st Century Grant for 11 schools and the Devils Lake Public School District acts as the fiscal agent.

Recommendation

We recommend that the School District complete a review each month with someone other than the 21st Century Grant Coordinator, to ensure that the calculations for the 25% matching requirement are accurate and appropriate.

Views of Responsible Officials / Planned Corrective Actions

The client agrees with the recommendation. See management's corrective action plan on page 46 for further information.

DEVILS LAKE PUBLIC SCHOOL DISTRICT #1

1601 College Drive North, Devils Lake, ND 58301
(701) 662-7640 (FAX) 662-7646

Scott A. Privratsky, Superintendent
Email: scott.privratsky@dlschools.org

November 10, 2018

**Office of the State Auditor
1655 43rd Street South, Suite 203
Fargo, ND 58103**

Office of the State Auditor:

This letter is in response to the State Auditor's Office Recommendation for Federal Noncompliance, case 2018-001, finding that the Devils Lake Public School District was noncompliant with the 25% local match requirement for the 21st Century Grant.

In order to comply with the 25% local match requirement for the 21st Century Grant, the Devils Lake Public Schools will follow the State Auditor's recommendation and complete a review each month of the 25% matching requirement. Julie Schuler, 21st Century Grant Coordinator, will calculate the 25% match calculations each month and Scott Privratsky, DLPS Superintendent will review the 25% match requirements for each school. In addition, no funds will be distributed to the schools until they have met their 25% match requirement.

This will be a continuing process for the duration of the 21st Century Grant.

We are confident this added level of oversight will ensure the district complies with the 25% matching requirement for the 21st Century Grant. Please advise if this solution is not satisfactory or if additional information is needed. Thank you.

Sincerely,



**Scott Privratsky
Superintendent**

STATE AUDITOR

JOSHUA C. GALLION
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GOVERNANCE COMMUNICATION

School Board of Directors
Devils Lake Public School District No. 1
Devils Lake, North Dakota

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Devils Lake Public School District No. 1, North Dakota, as of and for the year ended June 30, 2018, which collectively comprise the Devils Lake Public School District No. 1's basic financial statements and have issued our report thereon dated November 13, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 1, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the Devils Lake Public School District No. 1, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance, and for reporting on the schedule of expenditures of federal awards required by the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Devils Lake Public School District No. 1, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Devils Lake Public School District No. 1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the purpose of expressing an opinion on the Devils Lake Public School District No. 1's compliance with those requirements over the major federal program. While our audit provides a reasonable basis for our opinion over compliance for the major federal program, it does not provide a legal determination on the Devils Lake Public School District No. 1's compliance with those requirements.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Devils Lake Public School District No. 1 are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below titled “Audit Adjustments” lists all misstatements detected as a result of audit procedures were corrected by management.

AUDIT ADJUSTMENTS			
Intergovernmental Receivable	\$	170,882	
Due from County		72,020	
Revenue			\$ 242,902
Expenditures		184,254	
Accounts Payable			184,254

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 13, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the county’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of the Devils Lake Public School District No. 1, North Dakota and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the Devils Lake Public School District No. 1 for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the Devils Lake Public School District No. 1.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
November 13, 2018

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or by contacting the
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