

**FINLEY-SHARON PUBLIC
SCHOOL DISTRICT #19**

**FINANCIAL STATEMENTS
JUNE 30, 2016**

WITH INDEPENDENT AUDITOR'S REPORT

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

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FOR THE YEAR ENDED JUNE 30, 2016**

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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

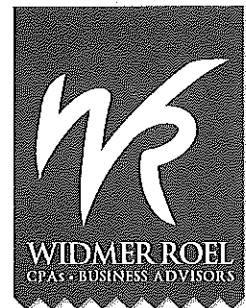
**SCHOOL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2016**

Current

Holly Stromsodt	Board President
Tor Bergstrom	Board Vice President
Lori Mehus	Board Member
Pam Montag	Board Member
Amy Johnson	Board Member
Don Nygaard	Board Member
Kevin Demers	Board Member
Jeff Larson	Superintendent
Melanie Abrahamson	Business Manager

June 30, 2016

Don Nygaard	Board President
Holly Stromsodt	Board Vice President
Lori Mehus	Board Member
Pam Montag	Board Member
Amy Johnson	Board Member
Tor Bergstrom	Board Member
Kevin Demers	Board Member
Jeff Larson	Superintendent
Melanie Abrahamson	Business Manager



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INDEPENDENT AUDITOR'S REPORT

School Board and Administration
Finley-Sharon Public School District #19
Finley, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Finley-Sharon Public School District #19** as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Finley-Sharon Public School District #19** as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information, the Schedule of Employer's Share of Net Pension Liability, and the Schedule of Employer Contributions on pages 26 to 28 are 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.

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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **Finley-Sharon Public School District #19's** basic financial statements. The Schedule of Fund Activity on page 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Fund Activity is the responsibility of management and was 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 information is 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 February 14, 2017, on our consideration of the **Finley-Sharon Public School District #19'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 the 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 **Finley-Sharon Public School District #19's** internal control over financial reporting and compliance.

Widmer Roll PC

Fargo, North Dakota
February 14, 2017

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,273,074
Taxes receivable	35,141
Capital assets (net of accumulated depreciation)	
Buildings	826,785
Vehicles	130,138
Equipment	205,594
Total capital assets (net)	<u>1,162,517</u>
Total assets	2,470,732
DEFFERED OUTFLOWS OF RESOURCES	
Related to pensions	<u>409,447</u>
Total assets and deferred outflows of resources	\$ <u><u>2,880,179</u></u>
LIABILITIES	
Accrued expenses	\$ 35,506
Long-term liabilities	
Due within one year	
Capital lease payable	55,668
Due after one year	
Compensated absences	30,491
Pension benefits payable	<u>2,387,045</u>
Total liabilities	<u>2,508,710</u>
DEFFERED INFLOWS OF RESOURCES	
Related to pensions	<u>79,690</u>
NET POSITION	
Net investment in capital assets	1,162,517
Restricted for capital projects	309,601
Unrestricted	<u>(1,180,339)</u>
Total net position	<u>291,779</u>
Total liabilities, deferred inflows of resources and net position	\$ <u><u>2,880,179</u></u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net Revenue (Expense) and Change in Net Position Total
	Expenses	Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Regular instruction	\$ 1,348,909	\$ -	\$ -	\$ (1,348,909)
Federal programs	19,206	-	42,079	22,873
Vocational education	2,984	-	10,107	7,123
School board	132,139	-	-	(132,139)
Executive administration	72,597	-	-	(72,597)
Support services - business	245,295	-	-	(245,295)
Operation and maintenance	192,371	-	-	(192,371)
Student activities	78,294	-	-	(78,294)
Student transportation	108,310	-	77,672	(30,638)
Food service	113,689	36,377	18,572	(58,740)
Community service	15,129	1,611	-	(13,518)
Capital outlay	18,429	-	-	(18,429)
Interest on long-term liabilities	2,109	-	-	(2,109)
Total governmental activities	\$ <u>2,349,461</u>	\$ <u>37,988</u>	\$ <u>148,430</u>	<u>(2,163,043)</u>

GENERAL REVENUES

Property taxes levied for general purposes	859,120
State aid	1,365,703
Earnings on investments	4,726
Miscellaneous revenues	<u>90,651</u>
Total general revenues	<u>2,320,200</u>
Change in net position	157,157
Net position - July 1	<u>134,622</u>
Net position - June 30	\$ <u>291,779</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2016

	General Fund	Building Fund	Food Service Fund (Non Major)	Total Government Funds
ASSETS				
Cash and cash equivalents	\$ 951,628	\$ 309,601	\$ 11,845	\$ 1,273,074
Taxes receivable	<u>30,991</u>	<u>4,150</u>	<u>-</u>	<u>35,141</u>
Total assets	<u>\$ 982,619</u>	<u>\$ 313,751</u>	<u>\$ 11,845</u>	<u>\$ 1,308,215</u>
LIABILITIES				
Accrued expenses	\$ 34,083	\$ -	\$ 1,423	\$ 35,506
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	<u>30,991</u>	<u>4,150</u>	<u>-</u>	<u>35,141</u>
Total liabilities and deferred inflows of resources	<u>65,074</u>	<u>4,150</u>	<u>1,423</u>	<u>70,647</u>
FUND BALANCES				
Restricted	-	309,601	-	309,601
Assigned	-	-	10,422	10,422
Unassigned	<u>917,545</u>	<u>-</u>	<u>-</u>	<u>917,545</u>
Total fund balances	<u>917,545</u>	<u>309,601</u>	<u>10,422</u>	<u>1,237,568</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 982,619</u>	<u>\$ 313,751</u>	<u>\$ 11,845</u>	<u>\$ 1,308,215</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances for governmental funds	\$ 1,237,568
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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.

Cost of capital assets	2,635,832	
Less accumulated depreciation	<u>(1,473,315)</u>	

Net capital assets		1,162,517
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Property tax receivables will be collected after year-end, but are not available to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the funds.	35,141
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred outflows of resources related to pension		409,447
Deferred inflows of resources related to pensions		<u>(79,690)</u>

Long-term liabilities applicable to the district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Capital lease payable	(55,668)	
Compensated absences	(30,491)	
Pension benefits payable	<u>(2,387,045)</u>	

Total long-term liabilities		<u>(2,473,204)</u>
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Total net position of governmental activities	\$ <u>291,779</u>
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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Food Service Fund (Non Major)	Total Government Funds
REVENUES				
Property taxes	\$ 754,298	\$ 103,927	\$ -	\$ 858,225
Local sources	32,033	-	-	32,033
Fees and charges	1,611	-	36,377	37,988
Intergovernmental				
State sources	1,467,991	-	660	1,468,651
Federal sources	42,079	-	17,912	59,991
Investment income	4,183	543	-	4,726
Community service	7,277	-	-	7,277
Miscellaneous	48,397	-	2,944	51,341
Total revenues	<u>2,357,869</u>	<u>104,470</u>	<u>57,893</u>	<u>2,520,232</u>
EXPENDITURES				
Current				
Regular instruction	1,294,382	-	-	1,294,382
Federal programs	19,206	-	-	19,206
Vocational education	2,984	-	-	2,984
School board	132,139	-	-	132,139
Executive administration	72,597	-	-	72,597
Support services - business	244,140	-	-	244,140
Operation and maintenance	157,278	35,093	-	192,371
Student activities	72,515	-	-	72,515
Student transportation	75,950	-	-	75,950
Food service	61,159	-	50,796	111,955
Community service	15,129	-	-	15,129
Capital outlay	18,429	-	-	18,429
Debt service				
Principal	55,668	-	-	55,668
Interest	2,109	-	-	2,109
Total expenditures	<u>2,223,685</u>	<u>35,093</u>	<u>50,796</u>	<u>2,309,574</u>
Excess of revenues over expenditures	<u>134,184</u>	<u>69,377</u>	<u>7,097</u>	<u>210,658</u>
Fund balances - July 1	<u>783,361</u>	<u>240,224</u>	<u>3,325</u>	<u>1,026,910</u>
Fund balances - June 30	<u>\$ 917,545</u>	<u>\$ 309,601</u>	<u>\$ 10,422</u>	<u>\$ 1,237,568</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ 210,658

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 capital outlay exceeded depreciation in the current year.

Current year capital outlay	18,429	
Depreciation expense	<u>(108,580)</u>	(90,151)

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term debt in the statement of net assets. Also, the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Repayment of debt	53,635
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In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources paid.

Net change in compensated absences	(5,329)
Pension expense	(12,551)

Some revenues reported in the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net change in taxes receivable	<u>895</u>
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Change in net position of governmental activities	\$ <u><u>157,157</u></u>
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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ <u>5,423</u>	\$ <u>62,947</u>
LIABILITIES		
Due to student groups and others	\$ -	\$ 62,947
NET ASSETS		
Held in trust for others	<u>5,423</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>5,423</u>	\$ <u>62,947</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Services provided for another school district	\$ 45,008
Interest income	<u>22</u>
Total additions	<u>45,030</u>
DEDUCTIONS	
Regular instruction for another school district	45,008
Scholarships awarded	<u>100</u>
Total deductions	<u>45,108</u>
Net decrease	(78)
Net assets, beginning of year	<u>5,501</u>
Net assets, ending of year	\$ <u><u>5,423</u></u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The financial statements of the Finley-Sharon Public School District #19 have been prepared in conformity with accounting principles general accepted in the United States of America ("GAAP") as applied to government units. The Government Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Financial Reporting Entity

The accompanying financial statements present the activities of the Finley-Sharon Public School District #19 ("District"). The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. Their criteria include appointing a voting majority of an organization's governing board and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or imposed financial burdens on the District.

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

Basis of Presentation

Government-Wide Financial Statements: The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the primary government of the District. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function to segment. Program revenues include (1) fees and charges paid by the recipient of goods or services offered by the program and (2) grant and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are reported instead as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregate and reported as non-major funds.

The District reports the following major governmental funds:

General Fund: This is the 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.

Building Fund: This fund accounts for financial resources dedicated to the construction of new school buildings, additions to old school buildings, the making of major repairs to existing buildings, or to make annual debt service payments on outstanding debt issues related to the building fund.

(Continued)

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The District reports the following fund types:

Private Purpose Trust Funds: There are two funds within this type of fund. 1. *Scholarships* - These funds are used to account for resources legally held in trust for scholarships to students. All resources of this fund, including earnings on investments, are used for scholarships. 2. *Services provided for another local educational agency* - These funds are received by the District on behalf of a smaller district and then remitted to the smaller district.

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

Measurement Focus and Basis of Accounting

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

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

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and certificates of deposit with original maturities less than 90 days, stated at cost.

Capital Assets

Capital assets include property, plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' life are

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	70 years
Vehicles	6 to 10 years
Equipment	5 to 30 years

Compensated Absences

Vested or accumulated sick leave is reported in the government-wide statement of net position. The District pays teachers for unused sick leave upon retirement or non-renewal because of reduction in force. The District's personnel policy requires payout of \$50 for each day up to a maximum of 30 days for accumulated sick leave. In addition, unused personal leave is reported in the government-wide statement of net position. Compensation for unused personal leave will be paid out at the employee's daily pay rate. Compensated absences represent the liability of the District for these employee benefits.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts, and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs in the current period. The face amount of the debt is reported as other financing sources. 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.

Pensions

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and not be recognized as an inflow of resources (revenues) until that time. The District only has one type of item, which arises only under a modified accrual basis of accounting,

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

which qualifies for reporting in this category. Accordingly, the item, *deferred revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Fund Balances

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance – Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, the governmental funds report fund classification that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds are spent. Fund balances are classified as follows:

Nonspendable – Fund balances that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – Restricted fund balances are those for which constraints are placed on the use of fund balances which are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of the governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to rescind a fund balance commitment.

Assigned – Assigned fund balances are amounts that are constrained by the District's intent to be used for a specific purpose, but are under the direction of the Board and the District's management.

Unassigned – Unassigned fund balances are those that have not been reported in any other classification. The general fund is the only fund that can report a positive unassigned fund balance.

As of June 30, 2016, the District only reported restricted, assigned and unassigned fund balances.

Flow Assumptions – When both restricted and unrestricted amounts of net position and fund balances are available for use for expenditures incurred, it is the District's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the District's policy to first use committed, then assigned, and then unassigned resources as they are needed.

Net Position – Net position represent the difference between assets and liabilities. Net positions are classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Unrestricted Net Position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

As of June 30, 2016, the District had \$309,601 in restricted net position, all of which was restricted by state laws regarding use of the building fund tax levy.

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 expenditure 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.

Use of Estimates

The preparation of financial statements in conformity of accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS – CASH AND INVESTMENTS

In accordance with North Dakota Statutes, the 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 another 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 of 110% of the deposits not covered by insurance or bonds.

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

At year ended June 30, 2016, the District's carrying amount of deposits was \$1,341,444 and the bank balances were \$1,426,314. Of the bank balance, \$461,976 was covered by Federal Depository Insurance. The remaining balance of \$964,338 was collateralized with securities held by the pledging financial institution's agent in the District's name.

Credit Risk

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.

(Continued)

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

- (c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- (d) Obligations of the state.

At June 30, 2016 the District held certificates of deposit in the amount of \$322,078 which are all considered deposits.

Concentration of Credit Risk

The District does not have a policy limiting the amount the District may invest in any one issuer.

NOTE 3 – TAXES RECEIVABLE

Taxes receivable represents the past three years of uncollected current and delinquent taxes. Management believes all delinquent taxes will be collected; therefore, no allowance has been established for uncollectible taxes receivable.

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

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

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

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets				
Buildings	\$ 1,814,935	\$ -	\$ -	\$ 1,814,935
Vehicles	507,263	-	-	507,263
Equipment	295,205	18,429	-	313,634
	<u>2,617,403</u>	<u>18,429</u>	<u>-</u>	<u>2,635,832</u>
Accumulated depreciation				
Buildings	962,222	25,928	-	988,150
Vehicles	344,765	32,360	-	377,125
Equipment	57,748	50,292	-	108,040
	<u>1,364,735</u>	<u>108,580</u>	<u>-</u>	<u>1,473,315</u>
Capital assets, net	\$ <u>1,252,668</u>	\$ <u>(90,151)</u>	\$ <u>-</u>	\$ <u>1,162,517</u>

(Continued)

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

Regular instruction	\$ 64,787
Support services - business	1,524
Student activities	7,622
Transportation	32,360
Food service	2,287
	<u>\$ 108,580</u>

NOTE 5 – ACCRUED EXPENSES

Accrued expenses consist of benefit payments owed to federal, state, and private agencies for amounts withheld from teachers' salaries as of June 30, 2016 but not yet remitted.

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

For the year ended June 30, 2016, the District did not make any transfers.

As of June 30, 2016, there were no interfund receivables or payables.

NOTE 7 – LONG-TERM LIABILITIES

During the year ended June 30, 2016, the following changes occurred in liabilities reported in the long-term liabilities – Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital lease payable	\$ 109,303	\$ -	\$ 53,635	\$ 55,668	\$ 55,668
Compensated absences	25,162	5,329	-	30,491	-
Pension benefits payable	1,968,115	418,930	-	2,387,045	-
Total	<u>\$ 2,102,580</u>	<u>\$ 424,259</u>	<u>\$ 53,635</u>	<u>\$ 2,473,204</u>	<u>\$ 55,668</u>

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

The School has one outstanding capital lease agreement with De Lage Landen Public Finance LLC. Collateral on the bonds consists of technology equipment.

The capital lease payable at June 30, 2016 consisted of the following:

\$164,923 capital lease payable due in annual installments of \$57,778 through August 20, 2016, interest at 3.79%. The lease is secured with technology equipment with a carrying value of \$99,009.

\$ 55,668

(Continued)

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The annual requirements to amortize the outstanding debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ <u>55,668</u>	\$ <u>2,110</u>	\$ <u>57,778</u>

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980s, the District was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$131,515 for public assets.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$922,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

NOTE 9 – PENSION PLANS

North Dakota Teacher's Fund for Retirement

The following brief description of TFFR is provided for general information purposes only. Participants should refer to North Dakota Century Code ("NDCC") Chapter 15-39.1 for more complete information. TFFR issues a publically available financial report that includes financial statements and requirement supplementary information for TFFR. That report may be obtained by writing to Teachers Fund for Retirement, 1930 Burnt Board Drive, PO Box 7100, Bismarck, North Dakota 58507-7100.

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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

At June 30, 2016, the District reported a liability of \$2,387,045 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, 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 TFRF employers. At July 1, 2015, the District's proportion was 0.182516 percent, which was a decrease of .005313 from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$149,554. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,642	\$ -
Changes of assumptions	268,024	-
Net difference between projected and actual earnings on pension plan investments	-	26,917
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	52,773
Employer contributions subsequent to the measurement date	<u>125,781</u>	<u>-</u>
	\$ <u>409,447</u>	\$ <u>79,690</u>

\$125,781 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

2017	\$ 18,580
2018	18,580
2019	72,894
2020	38,888
2021 and thereafter	2,508

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates are 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, 2015, 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 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:

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equities	57%	7.50%
Global fixed income	22%	1.30%
Global real assets	20%	5.40%
Cash equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Employer's proportionate share of net pension liability	\$ <u>3,154,593</u>	\$ <u>2,387,045</u>	\$ <u>1,746,926</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report.

In addition, the District has a 403(b) plan which covers all District employees. The District matches employee contributions up to 3% of employees' eligible compensation. Employer contributions were \$5,469 for the year ended June 30, 2016.

NOTE 10 – RELATED PARTIES

The District has a banking relationship with a financial institution in which three Board members of the District are employees of the financial institution. The banking relationship consists of checking account, certificate of deposit, and debt facility.

Total deposits at June 30, 2016 were approximately \$1,214,338.

**FINLEY-SHARON PUBLIC
SCHOOL DISTRICT #19**

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Property taxes	\$ 748,999	\$ 748,999	\$ 754,298	\$ 5,299
Local sources	550	550	32,033	31,483
Fees and charges	960	960	1,611	651
Intergovernmental	1,491,651	1,491,651	1,510,070	18,419
Investment income	5,250	5,250	4,183	(1,067)
Community service	5,000	5,000	7,277	2,277
Miscellaneous	-	-	48,397	48,397
Total revenues	<u>2,252,410</u>	<u>2,252,410</u>	<u>2,357,869</u>	<u>105,459</u>
EXPENDITURES				
Current				
Regular instruction	1,267,481	1,267,481	1,294,382	26,901
Federal programs	20,604	20,604	19,206	(1,398)
Vocational education	2,828	2,828	2,984	156
School board	125,213	125,213	132,139	6,926
Executive administration	72,500	72,500	72,597	97
Support services - business	246,985	246,985	244,140	(2,845)
Operation and maintenance	188,558	188,558	157,278	(31,280)
Student activities	80,000	80,000	72,515	(7,485)
Student transportation	91,400	91,400	75,950	(15,450)
Food service	2,650	2,650	61,159	58,509
Community service	16,500	16,500	15,129	(1,371)
Capital outlay	30,000	30,000	18,429	(11,571)
Debt service				
Principal	55,669	55,669	55,668	(1)
Interest	2,109	2,109	2,109	-
Total expenditures	<u>2,202,497</u>	<u>2,202,497</u>	<u>2,223,685</u>	<u>21,188</u>
Excess (deficiency) of revenues over expenditures	<u>49,913</u>	<u>49,913</u>	<u>134,184</u>	<u>84,271</u>
Fund balance - July 1	<u>783,361</u>	<u>783,361</u>	<u>783,361</u>	<u>-</u>
Fund balance - June 30	<u>\$ 833,274</u>	<u>\$ 833,274</u>	<u>\$ 917,545</u>	<u>\$ 84,271</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
ND TEACHERS' FUND FOR RETIREMENT
LAST 10 FISCAL YEARS*

Employer's proportion of the net pension liability	0.182516%
Employer's proportionate share of the net pension liability	\$ 2,387,045
Employer's covered-employee payroll	\$ 1,122,664
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	212.62%
Plan fiduciary net position as a percentage of the total pension liability	62.1%

*Complete data for this schedule is not available prior to 2016. The 2016 information presented has a measurement date of June 30, 2015.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
ND TEACHERS' FUND FOR RETIREMENT
LAST 10 FISCAL YEARS***

Statutorily required contribution	\$	143,133
Contributions in relation to the statutorily required contribution	\$	(143,133)
Contribution deficiency (excess)	\$	-
Employer's covered-employee payroll	\$	1,122,664
Contributions as a percentage of covered-employee payroll		12.75%

*Complete data for this schedule is not available prior to 2016. The 2016 information presented has a measurement date of June 30, 2015.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- a) The District adopts an annual budget on a modified accrual basis for the general fund, special revenue funds, debt service funds, and capital project funds.
- b) The annual budget must be prepared and District taxes must be levied on or before the fifteenth day of August of each year.
- c) The taxes levied must be certified to the county auditor by twenty-fifth of August.
- d) The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by the tenth of October.
- e) The operating budget includes proposed expenditures and means of financing them.
- f) Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- g) 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.
- h) All appropriations lapse at year-end.

Excess of Expenditures Over Appropriations:

For the year ended June 30, 2016, expenditures exceed appropriations in the General Fund by \$21,188. These over expenditures were funded by greater than anticipated revenues in that fund.

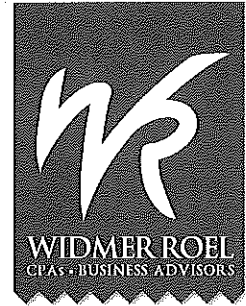
**FINLEY-SHARON PUBLIC
SCHOOL DISTRICT #19**

**SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FUND ACTIVITY FOR THE YEAR ENDED JUNE 30, 2016

	Balance 06/30/15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 06/30/16
MAJOR GOVERNMENTAL FUNDS						
General fund	\$ 783,361	\$ 2,357,869	\$ -	\$ -	\$ 2,223,685	\$ 917,545
Building fund	240,224	104,471	-	-	35,094	309,601
Total	1,023,585	2,462,340	-	-	2,258,779	1,227,146
NON-MAJOR GOVERNMENTAL FUNDS						
Food service fund	3,325	57,894	-	-	50,797	10,422
TOTAL GOVERNMENTAL FUNDS	1,026,910	2,520,234	-	-	2,309,576	1,237,568
FIDUCIARY FUNDS						
Student activity fund	80,791	85,960	-	-	103,804	62,947
Private purpose fund	5,501	45,029	-	-	45,107	5,423
Total	86,292	130,989	-	-	148,911	68,370
TOTAL REPORTING ENTITY	\$ 1,107,701	\$ 2,606,194	\$ -	\$ -	\$ 2,413,380	\$ 1,300,515



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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***

To the School Board and Administration
Finley-Sharon Public School District #19
Finley, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Finley-Sharon Public School District #19 (District)** as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the **Finley-Sharon Public School District #19's** basic financial statements and have issued our report thereon dated February 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Finley-Sharon Public School District #19'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Finley-Sharon Public School District #19's** internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2016-001.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Finley-Sharon Public School District #19'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*.

Finley-Sharon Public School District #19's Response to Findings

Finley-Sharon Public School District #19's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. **Finley-Sharon Public School District #19's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Widmer Roel PC

Fargo, North Dakota
February 14, 2017

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Governmental activities	Unmodified
Major governmental funds	Unmodified
Aggregate remaining fund information	Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>X</u> yes	<u> </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>X</u> yes	<u> </u> none reported

Noncompliance material to financial statements noted?

<u> </u> yes	<u>X</u> no
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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING 2016-001 (MATERIAL WEAKNESS) - SEGREGATION OF DUTIES

Condition

We believe the limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

Criteria

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Cause

Due to the size of the District, it is not practical to have sufficient staff to ensure adequate segregation of approval, custody of assets, posting, and reconciliation.

Effect

The financial statements are susceptible to misstatements due to errors or fraud.

Recommendation

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. We recommend the District implement and/or continue the following:

- All invoices should be reviewed and approved by an administrator and the School Board.
- Ideally, all checks should be signed by a School Board member.
- The individual responsible for printing and mailing checks should be separate from the individual responsible for authorizing payments and signing checks.
- Monthly income statements and balance sheets should be reviewed and approved by a responsible official and the School Board.
- Bank reconciliations should be reviewed and approved by someone separate from bank reconciliation responsibilities.
- Two people should be responsible for counting cash, and both individuals should sign off on all daily cash receipts.

Views of Responsible Officials

Finley-Sharon will consider the recommendations that were made by Widmer Roel PC.

FINDING 2016-002 (SIGNIFICANT DEFICIENCY) – FINANCIAL STATEMENT PREPARATION

Condition

Widmer Roel PC assists management in preparing financial statements that are presented, including note disclosures in accordance with Generally Accepted Accounting Principles.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Criteria

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

Cause

The School Board feels that it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

Effect

Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Views of Responsible Officials

Finley-Sharon will consider the recommendations that were made by Widmer Roel PC.