

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

**FINANCIAL STATEMENTS
JUNE 30, 2017**

WITH INDEPENDENT AUDITOR'S REPORT

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Page(s)</u>
School Officials	1
Independent Auditor's Report	2 - 4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet - Governmental Funds	7
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	10
Statement of Fiduciary Assets and Liabilities	11
Statement of Changes in Fiduciary Net Assets	12
Notes to Financial Statements	13 - 26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	27
Schedule of Employer's Share of Net Pension Liability	28
Schedule of Employer Contributions - ND Teachers' Fund for Retirement	29
Notes to Required Supplementary Information	30

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2017**

SUPPLEMENTARY INFORMATION

Schedule of Fund Activity	31
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 - 33
Schedule of Findings and Responses	34 - 37

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

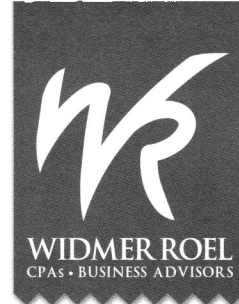
**SCHOOL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2017**

Current

Holly Stromsodt	Board President
Tor Bergstrom	Board Vice President
Ryan Braaten	Board Member
Don Nygaard	Board Member
Laurie Tuite	Board Member
Jeff Larson	Superintendent
April Grandalen	Business Manager

June 30, 2017

Holly Stromsodt	Board President
Tor Bergstrom	Board Vice President
Don Nygaard	Board Member
Kevin Demers	Board Member
Ryan Braaten	Board Member
Jeff Larson	Superintendent
April Grandalen	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, 2017, 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 an opinion 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, 2017, 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 27 to 29 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 31 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 27, 2018, 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 Poel PC

Fargo, North Dakota
February 27, 2018

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,348,684
Taxes receivable	49,870
Intergovernmental receivables	104,353
Capital assets (net of accumulated depreciation)	
Buildings	800,857
Vehicles	143,730
Equipment	<u>160,156</u>
Total capital assets (net)	<u>1,104,743</u>
Total assets	2,607,650
DEFFERED OUTFLOWS OF RESOURCES	
Related to pensions	<u>509,029</u>
Total assets and deferred outflows of resources	\$ <u><u>3,116,679</u></u>
LIABILITIES	
Accrued expenses	\$ 38,091
Long-term liabilities	
Due after one year	
Compensated absences	16,427
Net pension liability	<u>2,224,492</u>
Total liabilities	<u>2,279,010</u>
DEFFERED INFLOWS OF RESOURCES	
Related to pensions	<u>361,441</u>
NET POSITION	
Net investment in capital assets	1,104,743
Restricted for capital projects	412,449
Unrestricted	<u>(1,040,964)</u>
Total net position	<u>476,228</u>
Total liabilities, deferred inflows of resources and net position	\$ <u><u>3,116,679</u></u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net Revenue
			Operating	(Expense) and
		Charges for	Grants and	Change in
	Expenses	Services	Contributions	Net Position
				Total
GOVERNMENTAL ACTIVITIES				
Regular instruction	\$ 1,349,063	\$ -	\$ -	\$ (1,349,063)
Federal programs	21,636	-	57,203	35,567
Vocational education	2,502	-	9,758	7,256
School board	108,713	-	-	(108,713)
Executive administration	74,388	-	-	(74,388)
Support services - business	247,007	-	-	(247,007)
Operation and maintenance	171,988	-	-	(171,988)
Student activities	73,915	-	-	(73,915)
Student transportation	90,308	-	73,131	(17,177)
Food service	112,288	36,206	18,089	(57,993)
Community service	14,748	840	-	(13,908)
Capital outlay	13,407	-	-	(13,407)
Interest on long-term liabilities	2,110	-	-	(2,110)
Total governmental activities	\$ <u>2,282,073</u>	\$ <u>37,046</u>	\$ <u>158,181</u>	<u>(2,086,846)</u>

GENERAL REVENUES

Property taxes levied for general purposes	857,883
State aid	1,339,301
Earnings on investments	4,480
Miscellaneous revenues	65,716
Gain on Trade-In of Vehicle	<u>3,915</u>
Total general revenues	<u>2,271,295</u>
Change in net position	184,449
Net position - July 1	<u>291,779</u>
Net position - June 30	\$ <u>476,228</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2017

	General Fund	Building Fund	Food Service Fund	Special Reserve Fund (Non Major)	Total Government Funds
ASSETS					
Cash and cash equivalents	\$ 680,240	\$ 412,449	\$ 155,995	\$ 100,000	\$ 1,348,684
Taxes receivable	43,993	5,877	-	-	49,870
Intergovernmental receivables	104,353	-	-	-	104,353
Total assets	<u>\$ 828,586</u>	<u>\$ 418,326</u>	<u>\$ 155,995</u>	<u>\$ 100,000</u>	<u>\$ 1,502,907</u>
LIABILITIES					
Accrued expenses	\$ 38,091	\$ -	\$ -	\$ -	\$ 38,091
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue	43,993	5,877	-	-	49,870
Total liabilities and deferred inflows of resources	<u>82,084</u>	<u>5,877</u>	<u>-</u>	<u>-</u>	<u>87,961</u>
FUND BALANCES					
Restricted	-	412,449	-	-	412,449
Assigned	-	-	155,995	-	155,995
Unassigned	746,502	-	-	100,000	846,502
Total fund balances	<u>746,502</u>	<u>412,449</u>	<u>155,995</u>	<u>100,000</u>	<u>1,414,946</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 828,586</u>	<u>\$ 418,326</u>	<u>\$ 155,995</u>	<u>\$ 100,000</u>	<u>\$ 1,502,907</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances for governmental funds	\$ 1,414,946
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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	2,633,116
Less accumulated depreciation	<u>(1,528,373)</u>

Net capital assets	1,104,743
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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.

49,870

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 pensions

509,029

Deferred inflows of resources related to pensions

(361,441)

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.

Compensated absences	(16,427)
Net pension liability	<u>(2,224,492)</u>

Total long-term liabilities	<u>(2,240,919)</u>
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Total net position of governmental activities	\$ <u><u>476,228</u></u>
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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS JUNE 30, 2017

	General Fund	Building Fund	Food Service Fund	Special Reserve Fund (Non Major)	Total Government Funds
REVENUES					
Property taxes	\$ 741,012	\$ 102,142	\$ -	\$ -	\$ 843,154
Local sources	7,540	-	-	-	7,540
Fees and charges	840	-	36,206	-	37,046
Intergovernmental					
State sources	1,422,190	-	-	-	1,422,190
Federal sources	57,204	-	18,089	-	75,293
Investment income	3,774	706	-	-	4,480
Community service	6,182	-	-	-	6,182
Miscellaneous	50,846	-	1,146	-	51,992
Total revenues	<u>2,289,588</u>	<u>102,848</u>	<u>55,441</u>	<u>-</u>	<u>2,447,877</u>
EXPENDITURES					
Current					
Regular instruction	1,283,033	-	-	-	1,283,033
Federal programs	21,665	-	-	-	21,665
Vocational education	2,502	-	-	-	2,502
School board	109,192	-	-	-	109,192
Executive administration	73,966	-	-	-	73,966
Support services - business	244,935	-	-	-	244,935
Operation and maintenance	172,597	-	-	-	172,597
Student activities	65,823	-	-	-	65,823
Student transportation	100,476	-	-	-	100,476
Food service	60,614	-	49,870	-	110,484
Community service	14,642	-	-	-	14,642
Capital outlay	13,407	-	-	-	13,407
Debt service					
Principal	55,668	-	-	-	55,668
Interest	2,109	-	-	-	2,109
Total expenditures	<u>2,220,629</u>	<u>-</u>	<u>49,870</u>	<u>-</u>	<u>2,270,499</u>
Excess of revenues over expenditures	<u>68,959</u>	<u>102,848</u>	<u>5,571</u>	<u>-</u>	<u>177,378</u>
OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS					
Transfers in	-	-	140,000	100,000	240,000
Transfers out	(240,000)	-	-	-	(240,000)
Total other financing sources (uses)	<u>(240,000)</u>	<u>-</u>	<u>140,000</u>	<u>100,000</u>	<u>-</u>
Net change in fund balances	<u>(171,041)</u>	<u>102,848</u>	<u>145,571</u>	<u>100,000</u>	<u>177,378</u>
Fund balances - July 1	<u>917,543</u>	<u>309,601</u>	<u>10,424</u>	<u>-</u>	<u>1,237,568</u>
Fund balances - June 30	<u>\$ 746,502</u>	<u>\$ 412,449</u>	<u>\$ 155,995</u>	<u>\$ 100,000</u>	<u>\$ 1,414,946</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 JUNE 30, 2017

Net change in fund balances - total governmental funds \$ 177,378

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	53,544	
Depreciation expense	<u>(111,318)</u>	(57,774)

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	55,668
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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	14,064
Pension expense	(19,616)

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>14,729</u>
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Change in net position of governmental activities	\$ <u><u>184,449</u></u>
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FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ <u>5,145</u>	\$ <u>90,518</u>
LIABILITIES		
Due to student groups and others	\$ -	\$ 90,518
NET ASSETS		
Held in trust for others	<u>5,145</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>5,145</u>	\$ <u>90,518</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Services provided for another school district	\$ 44,088
Interest income	<u>22</u>
Total additions	<u>44,110</u>
DEDUCTIONS	
Regular instruction for another school district	44,088
Scholarships awarded	<u>300</u>
Total deductions	<u>44,388</u>
Net decrease	(278)
Net assets, beginning of year	<u>5,423</u>
Net assets, ending of year	\$ <u><u>5,145</u></u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 generally 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 or 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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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.

Food Service Fund: This fund accounts for financial resources dedicated to school meals for breakfast and hot lunch.

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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Cash and Cash Equivalents

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 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

Unused vacation is reported in the government-wide statement of net position. Compensation for unused vacation 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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 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, 2017, the District only reported restricted, assigned and unassigned fund balances.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 represents 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.

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, 2017, the District had \$412,449 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 CASH EQUIVALENTS

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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, the District's carrying amount of deposits was \$1,444,345 and the bank balances were \$1,656,932. Of the bank balance, \$462,826 was covered by Federal Depository Insurance. The remaining balance of \$1,194,106 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.
- (c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- (d) Obligations of the state.

At June 30, 2017 the District held certificates of deposit in the amount of \$323,070 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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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, 2017:

	<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	46,599	56,260	497,602
Equipment	313,634	6,945	-	320,579
	<u>2,635,832</u>	<u>53,544</u>	<u>56,260</u>	<u>2,633,116</u>
Accumulated depreciation				
Buildings	988,150	25,928	-	1,014,078
Vehicles	377,125	33,007	56,260	353,872
Equipment	108,040	52,383	-	160,423
	<u>1,473,315</u>	<u>111,318</u>	<u>56,260</u>	<u>1,528,373</u>
Capital assets, net	\$ <u>1,162,517</u>	\$ <u>(57,774)</u>	\$ <u>-</u>	\$ <u>1,104,743</u>

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

Regular instruction	\$ 66,565
Support services - business	1,566
Student activities	7,831
Transportation	33,007
Food service	2,349
	<u>\$ 111,318</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, 2017 but not yet remitted.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

For the year ended June 30, 2017, the District had two transfers:

		Transfers Out	Purpose
		General Fund	
Transfers In			
Nonmajor government funds			
Special reserve fund	\$	100,000	To create special reserve fund for monies over general fund levy limit to cover salary and supplies expenses during the fiscal year
Food service fund		140,000	
	\$	240,000	

As of June 30, 2017, there were no interfund receivables or payables.

NOTE 7 – LONG-TERM LIABILITIES

During the year ended June 30, 2017, the following changes occurred in liabilities reported in the long-term liabilities – Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital lease payable	\$ 55,668	\$ -	\$ 55,668	\$ -
Compensated absences	30,491	11,015	25,079	16,427
Pension benefits payable	<u>2,387,045</u>	<u>-</u>	<u>162,553</u>	<u>2,224,492</u>
Total	\$ <u>2,473,204</u>	\$ <u>11,015</u>	\$ <u>243,300</u>	\$ <u>2,240,919</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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 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

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

Tier 2

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

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

Death and Disability Benefits

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

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

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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

At June 30, 2017, the District reported a liability of \$2,224,492 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, 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, 2016, the District's proportion was 0.151836 percent, which was a decrease of .03068 from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$147,415. At June 30, 2017, 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	\$ 10,506	\$ 10,532
Changes of assumptions	185,809	-
Net difference between projected and actual earnings on pension plan investments	184,916	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	350,909
Employer contributions subsequent to the measurement date	<u>127,798</u>	<u>-</u>
	\$ <u>509,029</u>	\$ <u>361,441</u>

\$127,798 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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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	\$	8,671
2019		8,671
2020		53,856
2021		25,566
2022		(24,062)
and thereafter		(52,912)

Actuarial Assumptions

The total pension liability in the July 1, 2016 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, 2016, funding actuarial valuation for TFFR.

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

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

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

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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	58%	7.30%
Global fixed income	23%	0.88%
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 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 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>2,885,333</u>	\$ <u>2,224,492</u>	\$ <u>1,674,074</u>

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Pension Plan Fiduciary Net Position

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

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 \$4,788 for the year ended June 30, 2017.

NOTE 10 – RELATED PARTIES

The District has a banking relationship with a financial institution in which one Board member of the District is an employee of the financial institution. The banking relationship consists of checking account, certificate of deposit, and debt facility.

Total deposits at June 30, 2017 were approximately \$1,444,106.

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

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES				
Property taxes	\$ 725,982	\$ 725,982	\$ 741,012	\$ 15,030
Local sources	10,000	10,000	7,540	(2,460)
Fees and charges	600	600	840	240
Intergovernmental	1,475,535	1,475,535	1,479,394	3,859
Investment income	-	-	3,774	3,774
Community service	2,000	2,000	6,182	4,182
Miscellaneous	-	-	50,846	50,846
Total revenues	<u>2,214,117</u>	<u>2,214,117</u>	<u>2,289,588</u>	<u>75,471</u>
EXPENDITURES				
Current				
Regular instruction	1,366,264	1,366,264	1,283,033	(83,231)
Federal programs	21,665	21,665	21,665	-
Vocational education	2,984	2,984	2,502	(482)
School board	130,102	130,102	109,192	(20,910)
Executive administration	74,101	74,101	73,966	(135)
Support services - business	256,488	256,488	244,935	(11,553)
Operation and maintenance	226,476	226,476	172,597	(53,879)
Student activities	76,650	76,650	65,823	(10,827)
Student transportation	114,450	114,450	100,476	(13,974)
Food service	63,246	63,246	60,614	(2,632)
Community service	16,500	16,500	14,642	(1,858)
Capital outlay	25,000	25,000	13,407	(11,593)
Debt service				
Principal	55,669	55,669	55,668	(1)
Interest	2,109	2,109	2,109	-
Total expenditures	<u>2,431,704</u>	<u>2,431,704</u>	<u>2,220,629</u>	<u>(211,075)</u>
Excess (deficiency) of revenues over expenditures	<u>(217,587)</u>	<u>(217,587)</u>	<u>68,959</u>	<u>286,546</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(240,000)	(240,000)
Net change in fund balance	<u>(217,587)</u>	<u>(217,587)</u>	<u>(171,041)</u>	<u>46,546</u>
Fund balance - July 1	<u>917,543</u>	<u>917,543</u>	<u>917,543</u>	<u>-</u>
Fund balance - June 30	<u>\$ 699,956</u>	<u>\$ 699,956</u>	<u>\$ 746,502</u>	<u>\$ 46,546</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*

	As of measurement date of		
	6/30/2016	6/30/2015	6/30/2014
Employer's proportion of the net pension liability	0.151836%	0.182516%	0.187829%
Employer's proportionate share of the net pension liability	\$ 2,224,492	\$ 2,387,045	\$ 1,968,115
Employer's covered-employee payroll	\$ 986,519	\$ 1,122,664	\$ 1,089,511
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.1%	66.6%

*Complete data for this schedule is not available prior to 2014.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 127,798	\$ 125,781	\$ 143,133	\$ 117,121
Contributions in relation to the statutorily required contribution	\$ <u>(127,798)</u>	\$ <u>(125,781)</u>	\$ <u>(143,133)</u>	\$ <u>(117,121)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 1,002,337	\$ 986,519	\$ 1,122,664	\$ 1,089,511
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	10.75%

*Complete data for this schedule is not available prior to 2014.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

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 the 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, 2017, expenditures did not exceed appropriations in the General Fund.

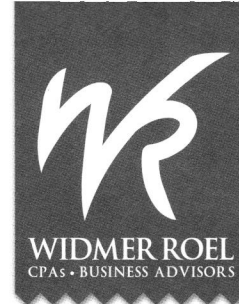
**FINLEY-SHARON PUBLIC
SCHOOL DISTRICT #19**

**SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

**SCHEDULE OF FUND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Balance 06/30/16</u>	<u>Receipts</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Disbursements</u>	<u>Balance 06/30/17</u>
MAJOR GOVERNMENTAL FUNDS						
General fund	\$ 917,543	\$ 2,289,588	\$ -	\$ 240,000	\$ 2,220,629	\$ 746,502
Building fund	309,601	102,848	-	-	-	412,449
Food service fund	10,424	55,441	140,000	-	49,870	155,995
Total major funds	<u>1,237,568</u>	<u>2,447,877</u>	<u>140,000</u>	<u>240,000</u>	<u>2,270,499</u>	<u>1,314,946</u>
NON-MAJOR GOVERNMENTAL FUNDS						
Special reserve fund	-	-	100,000	-	-	100,000
TOTAL GOVERNMENTAL FUNDS	<u>1,237,568</u>	<u>2,447,877</u>	<u>240,000</u>	<u>240,000</u>	<u>2,270,499</u>	<u>1,414,946</u>
FIDUCIARY FUNDS						
Student activity fund	62,947	87,071	-	-	59,500	90,518
Private purpose fund	5,423	44,110	-	-	44,388	5,145
Total fiduciary funds	<u>68,370</u>	<u>131,181</u>	<u>-</u>	<u>-</u>	<u>103,888</u>	<u>95,663</u>
TOTAL REPORTING ENTITY	<u>\$ 1,305,938</u>	<u>\$ 2,579,058</u>	<u>\$ 240,000</u>	<u>\$ 240,000</u>	<u>\$ 2,374,387</u>	<u>\$ 1,510,609</u>



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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, 2017, 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 27, 2018.

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 weaknesses 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be a material weaknesses: 2017-001 and 2017-002.

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: 2017-003.

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.

W. A. Merrell PC

Fargo, North Dakota
February 27, 2018

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

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?

X yes

 no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

X yes

 no

Noncompliance material to financial statements noted?

 yes

X no

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING 2017-001 (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.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2017

FINDING 2017-002 (MATERIAL WEEKNESS) – 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.

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. Specific items to review in detail include:

- Obtaining the actuarial report for the North Dakota Teachers' Fund for Retirement and the audited financial statements of the plan to compare the District's amounts to the financial statement disclosure.
- Compare prior year audited financial statements of the District to compare to the current year note disclosures.

Views of Responsible Officials

Finley-Sharon will consider the recommendations made by Widmer Roel PC and will work to implement processes in the future to review the financial statements.

FINLEY-SHARON PUBLIC SCHOOL DISTRICT #19

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2017

FINDING 2017-003 (SIGNIFICANT DEFICIENCY) – RECORDING OF EXPENDITURES

Condition

Widmer Roel PC identified an expenditure that was incorrectly recorded during fiscal year 2017, but was paid in September 2017 for fiscal year 2018 services.

Criteria

Contracted services should be recorded as expenditures when performed or acquired.

Cause

The District wanted expenditure to be recorded in fiscal year 2017 to meet budgeting goals for the current year.

Effect

Total expenditures would be overstated and cash would be understated at year-end.

Recommendation

We recommend that the District record all expenditures consistent with the period when services are performed or when the materials are purchased.

Views of Responsible Officials

Finley-Sharon will go back to the monthly payments for the service provided. The District had an invoice with June 2017 date, so it was paid on 2017 fiscal year. The District understands these services should be recorded for the year performed.