

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

AUDIT REPORT

JUNE 30, 2016

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
HAZEN, NORTH DAKOTA

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For The Year Ended June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3, Hazen, North Dakota, as of and for the year ended June 30, 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.

## INDEPENDENT AUDITOR'S REPORT

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3, Hazen, North Dakota as of June 30, 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.

### **Emphasis of Matters**

As discussed in Notes 1 and 3 to the financial statements, Hazen Public School District No. 3 adopted the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 36, the District's share of net pension liability and employer contributions – ND Public Employees Retirement System on page 37, and budgetary comparison information on pages 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## INDEPENDENT AUDITOR'S REPORT

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of Hazen Public School District No. 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hazen Public School District No. 3's internal control over financial reporting and compliance.



Mahlum Goodhart, PC  
Mandan, North Dakota  
December 30, 2016

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2016

This section of the Hazen Public School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016 and provides certain comparative data for the year ended June 30, 2015. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

### FINANCIAL HIGHLIGHTS

- The District's taxable value has increased from \$12,492,206 in budget year 2015 to the current taxable value of \$13,730,089 in budget year 2016. New growth accounts for \$227,046 and the remaining increase is due to increased property values.
- The District continues to receive mineral royalties, mostly gravel mining, from Mercer County amounting to \$113,378, an increase of \$80,867 from the previous fiscal year.
- This is year three under the new legislation that resulted in a change in the foundation aid calculation and taxes levied for school districts. The property tax component provides up to an additional 50 mills of property tax relief on top of the 75 mills currently provided. It also severs the relationship with property valuation changes. Foundation aid per student rates were increased from \$9,092 per student to \$9,365 per student in year three, less 75% of local income including gas, oil, and coal, and minerals. The combination of the two items shifts the revenue reported from taxes to foundation aid and results in an increase of revenue to the District.
- Increases in student population and the per pupil Foundation Aid rate resulted in an additional \$72,701 in revenue for the District.
- The District received a new Title 1 grant for \$39,973 to hire a math strategist and to provide an afterschool program for Title I targeted student assistance.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Management's Discussion and Analysis  
 June 30, 2016

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

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

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Management's Discussion and Analysis  
June 30, 2016

**Government-Wide Statements**

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

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

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

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

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

**Fund Financial Statements**

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

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

The District has two kinds of funds:

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



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2016

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

**Net position.** The District's net position was \$1,947,041 at June 30, 2016 and \$1,903,296 at June 30, 2015. The net position increased by \$43,745 for the year ended June 30, 2016.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>ASSETS</b>		
Current and Other Assets	\$ 3,011,737	\$ 2,557,561
Capital and Non-Current Assets	6,318,755	6,792,485
Total Assets	<u>9,330,492</u>	<u>9,350,046</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,265,047	448,844
<b>LIABILITIES</b>		
Current Liabilities	594,654	503,201
Long-Term Liabilities	7,879,400	6,779,551
Total Liabilities	<u>8,474,054</u>	<u>7,282,752</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	174,444	612,842
<b>NET POSITION</b>		
Net Investment in Capital Assets	4,923,755	5,262,485
Restricted	437,855	59,957
Unrestricted	<u>(3,414,569)</u>	<u>(3,419,146)</u>
Total Net Position	<u><u>\$ 1,947,041</u></u>	<u><u>\$ 1,903,296</u></u>

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

**Changes in net position.** The District's total revenues were \$7,050,379. This is an increase of 1% from the prior year. A significant portion of the District's revenues comes from state aid of 63%, property taxes of 14%, and coal funding and mineral resources of 14%. 4% comes from operating grants and contributions and 5% results from charges for services, investment earnings, and other revenues.

The total cost of all programs and services was \$7,006,634. This is an increase of 5.1% from the prior year. 62% of these costs are for instruction and instruction-related services, 21% are for student support services, and 17% are for school administration and support services.

**Governmental Activities**

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2016

The following table provides a summary of the District's operations for the year ended June 30, 2016.

<u>Governmental Activities</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Revenues</b>		
<u>Program Revenues</u>		
Charges for Services	\$ 254,582	\$ 206,452
Operating Grants & Contributions	300,084	312,850
<u>General Revenues</u>		
Property Taxes	969,048	912,071
Coal Funding and Mineral Resources	1,010,477	1,041,550
State Aid	4,435,940	4,403,738
Investment Earnings	37,362	44,784
Other Revenues	42,886	61,666
<b>Total Revenues</b>	<u>7,050,379</u>	<u>6,983,111</u>
<b>Expenses</b>		
Instruction and Instruction-Related Services	4,315,197	4,276,213
School Administration & Support Services	1,192,429	835,380
Student Support Services	1,452,013	1,505,279
Community Services	18,550	21,550
Interest Expense	28,445	30,075
<b>Total Expenses</b>	<u>7,006,634</u>	<u>6,668,497</u>
Increase (Decrease) in Net Position	43,745	314,614
Net Position - Beginning of Year	1,903,296	6,912,516
Adjustment to Beginning Net Position	-	(5,323,834)
Net Position - Beginning of Year, as Restated	<u>1,903,296</u>	<u>1,588,682</u>
Net Position - End of Year	<u>\$ 1,947,041</u>	<u>\$ 1,903,296</u>

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

- The cost of all governmental activities this year was \$7,006,634, an increase of 5.1% from last year.
- The amount that our taxpayers paid for these activities through property taxes, state aid, investment earnings, and other revenue was \$6,451,968.
- Some of the cost, \$254,582, was paid by those who directly benefited from the programs.
- Grants and contributions totaled \$300,084.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Management's Discussion and Analysis  
June 30, 2016

	June 30, 2016		June 30, 2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction & Instruction-Related Services	\$ 4,315,197	\$ 4,088,669	\$ 4,276,213	\$ 4,040,274
School Administration & Support Services	1,192,429	1,160,712	835,380	835,380
Student Support Services	1,452,013	1,155,592	1,505,279	1,221,916

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

- Revenues from governmental fund types totaled \$7,042,009 an increase of \$69,541 compared to the preceding year.
- State aid increased \$42,773 due to an increase in Foundation Aid payments.
- Federal aid increased \$58,219 mostly due to the additional Title 1 Grant received.

**General Fund Budgetary Highlights**

- The District budget was amended during the year to increase revenues by \$78,096 and decrease expenditures by \$2,680.
- Actual revenues were \$65,652 more than the final budget amounts due to several reasons:
  - Property taxes received were \$68,530 greater than budgeted due to not having the taxable valuations when the budget was created. The final valuation was greater than estimated by the County Auditor.
  - An Increase in gravel mining in the county generated revenues for the District that were \$83,378 more than budgeted, while coal production/conversion decreased leaving the District under budget by \$102,901.
  - State aid received was \$19,152 greater than budgeted as a result of excess biennium funds for vocational classes that were redistributed to schools.
- Overall, total expenditures were under budget by \$556,223. The largest line items over or under budget were:
  - Regular education programs expenditures were \$171,299 under budget due to several contributing factors. The most notable was the changes in the teaching staff. With the 2015-16 budget approved in June 2015, estimates were made using middle-of-the-road wages and benefits for newly vacated positions. Actual hiring resulted in much lower wage/benefit packages than budgeted accounting for \$60,821 in the elementary alone. The remaining amount is a result of fewer summer school offerings than anticipated, building/program supply and equipment budgets, and remaining substitute teacher budget balances.
  - Supportive Service – Business expenditures were \$19,262 under budget due to the timely approval of E-rate funds reducing the telephone bills early in the fiscal year and the reduction in the cost of the copier leases.
  - Operation and Maintenance expenditures were \$252,665 under budget due to a transfer of \$145,000 to capital projects.
  - Student Activities expenditures were \$91,700 over budget due to not budgeting for the amount given to the various student activity groups.
  - Student Transportation expenditures were \$80,614 under budget due to fewer rural route miles and the sharp decline in fuel prices throughout the year.
  - Vocational education expenditures were \$16,971 under budget due to remaining repair, equipment, and supply budgets across all three vocational areas.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Management's Discussion and Analysis  
 June 30, 2016

- Special education expenditures were \$65,162 under budget due to fewer Pre-K special education students than anticipated. In addition, the special education unit did not assess the District the \$55,000 they anticipated, which was included in the budget.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2016, the District had a net investment in capital assets of \$6,318,755. The District's net capital assets decreased from fiscal year 2015 to fiscal year 2016 by \$473,730.

	June 30, 2016	June 30, 2015
Land	\$ 37,500	\$ 37,500
Land Improvements	832,784	832,784
Buildings	13,258,404	13,258,404
Building Improvements	4,087,576	4,071,930
Equipment	1,233,778	1,126,328
Tech Equipment	223,108	164,951
Vehicles	146,334	146,334
Totals at Historical Costs	19,819,484	19,638,231
Less Accumulated Depreciation	(13,500,729)	(12,845,746)
Net Capital Assets	<u>\$ 6,318,755</u>	<u>\$ 6,792,485</u>

**District's Long Term Debt**

At June 30, 2016, the District had total debt outstanding of \$7,879,400. Of this amount, \$1,395,000 comprises bonds payable. There is also a net pension liability of \$6,375,890 due to the implementation of GASB Statement No. 68. The remaining amount of \$108,510 is for accrued leave under the policies adopted by the District.

Excluding the net pension liability and accrued leave, the District's total debt decreased from fiscal year 2015 to fiscal year 2016 by \$135,000. Note 6 of this report provides detailed information on the debt of the District.

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

Amounts available for appropriation in the general fund budget are \$6,507,886.

General fund expenditures are budgeted at \$6,855,006. The District has added no major new program initiatives to the 2017 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease \$347,120 at the close of the 2017 fiscal year.

**Contacting the District's Financial Management**

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

## HAZEN PUBLIC SCHOOL DISTRICT NO. 3

## Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,084,517
Investments	1,754,058
Due from Other Governments	131,135
Taxes Receivable, Net	42,027
Capital Assets, Net of Depreciation	<u>6,318,755</u>
Total Assets	9,330,492
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Derived from Pensions	1,265,047
<b>LIABILITIES</b>	
Accrued Salaries & Benefits	409,022
Accounts Payable	185,632
Long-Term Liabilities:	
Portion Due or Payable within One Year	
Accrued Compensated Absences	30,000
Portion Due or Payable after One Year	
Net Pension Liability	6,375,890
Bonds Payable	1,395,000
Compensated Absences	<u>78,510</u>
Total Liabilities	8,474,054
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Derived from Pensions	174,444
<b>NET POSITION</b>	
Net Investment in Capital Assets	4,923,755
Restricted for:	
Capital Projects	340,696
Debt Service	97,159
Unrestricted	<u>(3,414,569)</u>
Total Net Position	<u>\$ 1,947,041</u>

The accompanying notes are an integral part of this statement.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Activities

For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			Net (Expense)
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Revenue &amp; Changes in Net Position</u>
Governmental Activities				
Instruction & Instruction-Related Services	\$ 4,315,197	\$ -	\$ 226,528	\$ (4,088,669)
School Administration & Support Services	1,192,429	31,717	-	(1,160,712)
Student Support Services	1,452,013	222,865	73,556	(1,155,592)
Community Services	18,550	-	-	(18,550)
Interest Expense	28,445	-	-	(28,445)
Total Primary Government	\$ 7,006,634	\$ 254,582	\$ 300,084	(6,451,968)

General Revenues

Taxes:	
Property Taxes, Levied for General Purpose	640,257
Property Taxes, Levied for Capital Projects	195,334
Property Taxes, Levied for Debt Service	85,528
Property Taxes, Levied for Special Reserve	47,929
Coal Funding and Mineral Resources	1,010,477
State Aid	4,435,940
Unrestricted Investment Earnings	37,362
Other Revenues	42,886
Total General Revenues	<u>6,495,713</u>
Change in Net Position	43,745
Net Position - Beginning of Year	<u>1,903,296</u>
Net Position - End of Year	<u>\$ 1,947,041</u>

The accompanying notes are an integral part of this statement.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Balance Sheet - Governmental Funds  
June 30, 2016

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Capital Projects Fund	Debt Service		
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 462,235	\$ 322,597	\$ 88,744	\$ 210,941	\$ 1,084,517
Investments	1,754,058	-	-	-	1,754,058
Due from County Treasurer	58,635	9,372	4,323	2,067	74,397
Due from Other Governments	56,738	-	-	-	56,738
Taxes Receivable, Net	27,287	8,727	4,092	1,921	42,027
<b>TOTAL ASSETS</b>	<b>\$ 2,358,953</b>	<b>\$ 340,696</b>	<b>\$ 97,159</b>	<b>\$ 214,929</b>	<b>\$ 3,011,737</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accrued Salaries & Benefits	\$ 409,022	\$ -	\$ -	\$ -	\$ 409,022
Accounts Payable	30,968	77,339	77,325	-	185,632
<b>Total Liabilities</b>	<b>439,990</b>	<b>77,339</b>	<b>77,325</b>	<b>-</b>	<b>594,654</b>
<b>Deferred Inflows of Resources:</b>					
Uncollected Taxes	27,287	8,727	4,092	1,921	42,027
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>467,277</b>	<b>86,066</b>	<b>81,417</b>	<b>1,921</b>	<b>636,681</b>
<b>Fund Balances:</b>					
<b>Restricted</b>					
Capital Projects	-	254,630	-	-	254,630
Debt Service	-	-	15,742	-	15,742
<b>Assigned</b>					
Food Service	-	-	-	403	403
Consortium	-	-	-	4,586	4,586
Special Reserve	-	-	-	208,019	208,019
Unassigned	1,891,676	-	-	-	1,891,676
<b>Total Fund Balances</b>	<b>1,891,676</b>	<b>254,630</b>	<b>15,742</b>	<b>213,008</b>	<b>2,375,056</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 2,358,953</b>	<b>\$ 340,696</b>	<b>\$ 97,159</b>	<b>\$ 214,929</b>	<b>\$ 3,011,737</b>
Total fund balances - governmental funds					\$ 2,375,056
Total net position reported for <i>governmental activities</i> in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$19,819,484, and the accumulated depreciation is \$13,500,729.					6,318,755
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.					1,265,047
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.					(6,375,890)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.					(174,444)
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenues in the funds.					42,027
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net position. Balances at June 30, 2016 are:					
Bonds Payable					(1,395,000)
Compensated absences					(108,510)
<b>Net position of governmental activities</b>					<b>\$ 1,947,041</b>

The accompanying notes are an integral part of this statement.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the year ended June 30, 2016

	Major Fund			Other Governmental Funds	Total Governmental Funds
	General	Capital Projects Fund	Debt Service		
<b>REVENUES</b>					
Property Taxes	\$ 635,680	\$ 193,015	\$ 84,574	\$ 47,409	\$ 960,678
Coal Funding and Mineral Resources	1,010,477	-	-	-	1,010,477
Fees and Charges	42,708	-	-	223,018	265,726
State Aid	4,480,538	-	-	3,384	4,483,922
Federal Aid	181,930	-	-	70,172	252,102
Earnings on Investments	36,768	339	-	255	37,362
Miscellaneous	31,742	-	-	-	31,742
<b>TOTAL REVENUES</b>	<b>6,419,843</b>	<b>193,354</b>	<b>84,574</b>	<b>344,238</b>	<b>7,042,009</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Regular Education Programs	3,038,475	-	-	-	3,038,475
Title I	115,002	-	-	-	115,002
Title II	26,925	-	-	-	26,925
Improvement of Instruction Service	10,062	-	-	-	10,062
Instructional Media Service	138,122	-	-	-	138,122
Other Instruction Support Service	184,029	-	-	-	184,029
School Board	202,606	-	-	-	202,606
Executive Administration	191,332	-	-	-	191,332
Supportive Service - Business	159,771	-	-	-	159,771
Other Support Services	77,325	-	-	-	77,325
Operation & Maintenance	655,337	-	-	-	655,337
Support Services Central	285,565	-	-	-	285,565
Student Activities	312,264	-	-	-	312,264
Student Transportation	327,341	-	-	-	327,341
Services Provided Another LEA	19,539	-	-	-	19,539
Vocational Education	290,317	-	-	-	290,317
Special Education	121,614	-	-	-	121,614
Adult Education/Community Services	6,890	-	-	11,660	18,550
Food Service	22,526	-	-	287,986	310,512
Capital Outlay	-	39,523	-	-	39,523
<b>Debt Service:</b>					
Principal	-	65,000	70,000	-	135,000
Interest	-	13,270	15,175	-	28,445
<b>TOTAL EXPENDITURES</b>	<b>6,185,042</b>	<b>117,793</b>	<b>85,175</b>	<b>299,646</b>	<b>6,687,656</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	234,801	75,561	(601)	44,592	354,353
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In (Out)	(119,299)	145,000	-	(25,701)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(119,299)</b>	<b>145,000</b>	<b>-</b>	<b>(25,701)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>115,502</b>	<b>220,561</b>	<b>(601)</b>	<b>18,891</b>	<b>354,353</b>
Fund Balances - July 1, 2015	1,776,174	34,069	16,343	194,117	2,020,703
<b>FUND BALANCES - JUNE 30, 2016</b>	<b>\$ 1,891,676</b>	<b>\$ 254,630</b>	<b>\$ 15,742</b>	<b>\$ 213,008</b>	<b>\$ 2,375,056</b>

The accompanying notes are an integral part of this statement.



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 For the year ended June 30, 2016

Net change in fund balances - total governmental funds \$ 354,353

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

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

Current Year Capital Outlay	\$ 181,253	
Current Year Depreciation Expense	<u>(654,983)</u>	(473,730)

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

Repayment of Debt		135,000
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Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (34,686)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. 8,370

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

Net Decrease in Compensated Absences		<u>54,438</u>
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Change in net position of governmental activities		<u>\$ 43,745</u>
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HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Statement of Fiduciary Net Position

June 30, 2016

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 113,900</u>
<b>LIABILITIES</b>	
Due to Student Groups	<u>\$ 113,900</u>

The accompanying notes are an integral part of this statement.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

**Debt Service Fund:** The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on long-term debt paid primarily from special assessments levied by the District.

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

Measurement Focus/Basis of Accounting

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

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Transactions

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

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

Encumbrance Accounting

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

Cash, Cash Equivalents

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

Investments

Investments are recorded at fair value. During the year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The District's implementation of this statement required no adjustment to prior periods; however, it expanded the disclosure requirements for items carried at fair value.

Inventory

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

Capital Assets

Capital assets include land, buildings, improvements, equipment and vehicles, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value of the asset or materially extend asset lives are not capitalized. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Accrued Compensated Absences

The District’s policy permits teachers and administrative personnel to accumulate a limited amount of personal leave; and permits twelve month employees to accrue and carryover a limited amount of vacation leave. These accumulated leaves will be paid to employees upon separation of employment from Hazen Public School District No. 3. A long-term liability for accrued personal and vacation leave as of June 30th has been recorded in the government-wide statements.

Net Position

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

Fund Balance Classifications

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

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Deferred Inflows/Outflows of Resources

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

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

Pensions

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

NOTE 2      DEPOSITS – CASH AND INVESTMENTS

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 2      DEPOSITS – CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk

As of June 30, 2016, the District’s carrying balances were \$1,330,911 for governmental funds, including certificates of deposit and \$113,900 for agency funds. The bank balance of these deposits as of June 30, 2016 was \$1,699,858. Of the bank balances, \$496,510 was covered by Federal Depository Insurance and National Credit Union Administration Insurance, and \$1,203,384 was collateralized with securities held by the pledging financial institutions’ agent not in the District’s name. During the fiscal year ended June 30, 2016, the board reviewed the pledge of securities semi-annually as required by state law.

Credit Risk and Interest Rate Risk

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

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

The investments of the District include U.S. government securities and bonds held by Piper Jaffray and First Financial Equity Corporation, and certificates of deposit held by the District at local financial institutions. At June 30, 2016, the District’s investments had interest rates from 0.29 percent to 1.5 percent with maturities of 12 months or greater. Following is a summary of investments by type:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less than 1 Year</u>	<u>1-7 Years</u>
Bonds held by First Financial Equity Corporation	\$ 1,390,490	\$ -	\$ 1,390,490
Certificates of Deposit	246,394	246,394	-
Total	<u>\$ 1,754,058</u>	<u>\$ 363,568</u>	<u>\$ 1,390,490</u>

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



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 3      FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measure at fair value on a recurring basis at June 30, 2016.

ASSETS	TOTAL	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Long-term CDs	\$ 246,394	\$ 246,394	\$ -	\$ -
US Treasury Bonds	1,390,490	-	1,390,490	-
	<u>\$ 1,636,884</u>	<u>\$ 246,394</u>	<u>\$ 1,390,490</u>	<u>\$ -</u>

NOTE 4      PROPERTY TAX

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 5      CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2016:

	Balance July 1	Increases	Decreases	Balance June 30
Capital assets not being depreciated:				
Land	\$ 37,500	\$ -	\$ -	\$ 37,500
Total Capital Assets Not Being Depreciated	37,500	-	-	37,500
Capital assets being depreciated:				
Land Improvements	832,784	-	-	832,784
Buildings	13,258,404	-	-	13,258,404
Building Improvements	4,071,931	15,645	-	4,087,576
Equipment	1,126,327	107,451	-	1,233,778
Tech Equipment	164,951	58,157	-	223,108
Vehicles	146,334	-	-	146,334
Total Capital Assets Being Depreciated	19,600,731	181,253	-	19,781,984
Less accumulated depreciation for				
Land Improvements	370,638	31,592	-	402,230
Buildings	9,991,282	130,685	-	10,121,967
Building Improvements	1,846,740	372,625	-	2,219,365
Equipment	494,064	97,656	-	591,720
Tech Equipment	67,156	16,227	-	83,383
Vehicles	75,866	6,198	-	82,064
Total Accumulated Depreciation	12,845,746	654,983	-	13,500,729
Total Capital Assets Being Depreciated, Net	6,754,985	(473,730)	-	6,281,255
Total Capital Assets, Net	\$ 6,792,485	\$ (473,730)	\$ -	\$ 6,318,755

Depreciation expense for the year ended June 30, 2016 was \$654,983 and has been reported in the government-wide statement of activities. Depreciation expense was charged to functions/programs of the District as follows:

Functions/Programs	Amount
Instruction & Instruction-Related Services	\$ 406,099
School Administration & Support Services	129,417
Student Support Services	119,467
Total Depreciation Expense	\$ 654,983

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 6      LONG-TERM DEBT

Following is a summary of long-term debt activity for the year ended June 30, 2016:

	** Compensated		
	Absences	Bonds Payable	Total
Payable, June 30, 2015	\$ 162,948	\$ 1,530,000	\$ 1,692,948
Paid	(54,438)	(135,000)	(189,438)
Payable, June 30, 2016	\$ 108,510	\$ 1,395,000	\$ 1,503,510

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

The bond payable includes the following:

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

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

For the year ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 13,145	\$ 13,145
2018	145,000	25,275	170,275
2019	145,000	23,245	168,245
2020	145,000	21,215	166,215
2021	790,000	61,640	851,640
2022-2026	170,000	1,870	171,870
	\$ 1,395,000	\$ 146,390	\$ 1,541,390

NOTE 7      DUE FROM OTHER GOVERNMENTS

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

NOTE 8      DUE FROM COUNTY TREASURER

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

NOTE 9      ACCRUED SALARIES AND BENEFITS

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 10      DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2016, are as follows:

Deferred Outflows of Resources	
Derived from pension - TFFR	\$ 1,152,659
Derived from pension - NDPERS	112,388
Total	<u>\$ 1,265,047</u>

Deferred Inflows of Resources	
Derived from pension - TFFR	\$ 66,769
Derived from pension - NDPERS	107,675
Total	<u>\$ 174,444</u>

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

NOTE 11      PENSION PLANS

1. North Dakota Teacher's Fund for Retirement

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

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

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

Pension Benefits

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

*Tier 1 Grandfathered*

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2016

NOTE 11 PENSION PLANS – CONTINUED

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

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

Death and Disability Benefits

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

Member and Employer Contributions

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

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

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

At June 30, 2016, the District reported a liability of \$5,921,131 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 TFFR employers. At July 1, 2015, the District's proportion was 0.452736% which was an increase of .008215% from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$406,391. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,801	\$ -
Change of assumptions	664,841	-
Net difference between projected and actual earnings on pension plan investments	-	66,769
Changes in proportion and differences between employer contributions and proportionate share of contributions	81,599	-
Employer contributions subsequent to the measurement date (see below)	367,418	-
Total	\$ 1,152,659	\$ 66,769

\$367,418 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pensions liability in the year ended June 30, 2017.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

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

<u>For the year ended June 30,</u>	
2017	\$ 81,507
2018	81,507
2019	81,507
2020	216,235
2021	131,881
Thereafter	125,835

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

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

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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. The discount rate used to measure the total pension liability changed from 8 percent to 7.75 percent based on the investment return assumption changes as a result of the April 30, 2015 actuarial experience study.

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Employer's proportionate share of the net pension liability	\$ 7,825,055	\$ 5,921,131	\$ 4,333,299

Pension plan fiduciary net position

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



HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

2. North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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

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

At June 30, 2016, the District reported a liability of \$454,759 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the District's proportion was 0.066878 percent which was a decrease of .000681 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$42,344. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,193	\$ -
Changes of assumptions	-	40,517
Net difference between projected and actual earnings on pension plan investments	52,547	62,146
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,012
Employer contributions subsequent to the measurement date (see below)	46,648	-
Total	\$ 112,388	\$ 107,675

\$46,648 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, 2017.

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

	For the year ended June 30,
2017	\$ (13,319)
2018	(13,319)
2019	(13,319)
2020	6,518
2021	(8,501)
Thereafter	-

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	3.50%
Salary Increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

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

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Notes to Basic Financial Statements  
June 30, 2016

NOTE 11      PENSION PLANS – CONTINUED

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 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.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	\$ 697,350	\$ 454,759	\$ 256,276

HAZEN PUBLIC SCHOOL DISTRICT NO. 3

Notes to Basic Financial Statements

June 30, 2016

NOTE 11 PENSION PLANS – CONTINUED

Pension plan fiduciary net position

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

NOTE 12 RISK MANAGEMENT

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

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

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

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

NOTE 13 EXPENDITURES IN EXCESS OF BUDGET

For the fiscal year ended June 30, 2016, certain individual line items were over in the general fund budget, but as a whole the expenditures were under budget. No remedial action is anticipated.

NOTE 14 INTERFUND TRANSFER

For the fiscal year ended June 30, 2016, the Special Reserve Fund transferred \$25,701 to the General Fund for the amount that would exceed the limitation allowed by State law for the Special Reserve Fund. The General Fund also transferred \$145,000 to the Capital Projects Fund in the fiscal year. This transfer is to help with the high school's building exterior refinishing project.

***REQUIRED  
SUPPLEMENTARY INFORMATION***

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Required Supplementary Information  
 For the Year Ended June 30, 2016

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.452736%	0.444521%
Employer's proportionate share of the net pension liability (asset)	\$ 5,921,131	\$ 4,657,792
Employer's covered-employee payroll	\$ 2,784,803	\$ 2,578,459
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	62.1%	66.6%

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

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

	2016	2015
Statutorily required contribution	\$ 355,045	\$ 277,182
Contributions in relation to the statutorily required contribution	\$ (355,045)	\$ (277,182)
Contribution deficiency (excess)	\$ -	\$ -
Employer's covered-employee payroll	\$ 2,784,803	\$ 2,578,459
Contributions as a percentage of covered-employee payroll	12.75%	10.75%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

See independent auditor's report and notes to financial statements.

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
 Required Supplementary Information  
 For the Year Ended June 30, 2016

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.066878%	0.067559%
Employer's proportionate share of the net pension liability (asset)	\$ 454,759	\$ 428,811
Employer's covered-employee payroll	\$ 595,803	\$ 569,095
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

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

	2016	2015
Statutorily required contribution	\$ 45,256	\$ 40,520
Contributions in relation to the statutorily required contribution	\$ (44,264)	\$ (40,520)
Contribution deficiency (excess)	\$ 992	\$ -
Employer's covered-employee payroll	\$ 595,803	\$ 569,095
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

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

Data reported is measured as of 7/1/2015 and 7/1/2014.

See independent auditor's report and notes to financial statements.



## HAZEN PUBLIC SCHOOL DISTRICT NO. 3

## Budgetary Comparison Schedule

## General Fund

For the year ended June 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 567,150	\$ 567,150	\$ 635,680	\$ 68,530
Coal Funding and Mineral Resources	1,030,100	1,030,100	1,010,477	(19,623)
Fees and Charges	56,600	56,600	42,708	(13,892)
State Aid	4,461,386	4,461,386	4,480,538	19,152
Federal Aid	120,477	197,596	181,930	(15,666)
Earnings on Investments	25,000	25,000	36,768	11,768
Miscellaneous	15,382	16,359	31,742	15,383
TOTAL REVENUES	6,276,095	6,354,191	6,419,843	65,652
EXPENDITURES				
Current:				
Regular Education Programs	3,249,759	3,209,774	3,038,475	171,299
Title I	71,742	119,778	115,002	4,776
Title II	26,925	26,925	26,925	-
Improvement of Instruction Service	13,300	13,300	10,062	3,238
Instructional Media Service	142,507	142,507	138,122	4,385
Other Instruction Support Service	205,112	191,304	184,029	7,275
School Board	206,820	206,820	202,606	4,214
Executive Administration	196,041	196,041	191,332	4,709
Supportive Service - Business	179,033	179,033	159,771	19,262
Other Support Services	77,214	77,214	77,325	(111)
Operation & Maintenance	908,002	908,002	655,337	252,665
Support Services Central	278,859	294,759	285,565	9,194
Student Activities	220,564	220,564	312,264	(91,700)
Student Transportation	407,955	407,955	327,341	80,614
Services Provided Another LEA	37,182	26,159	19,539	6,620
Vocational Education	309,088	307,288	290,317	16,971
Special Education	186,776	186,776	121,614	65,162
Adult Education/Community Services	9,890	9,890	6,890	3,000
Food Service	17,176	17,176	22,526	(5,350)
TOTAL EXPENDITURES	6,743,945	6,741,265	6,185,042	556,223
Excess (Deficiency) of Revenues Over (Under) Expenditures	(467,850)	(387,074)	234,801	621,875
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(30,000)	(30,000)	(119,299)	(89,299)
Total Other Financing Sources (Uses)	(30,000)	(30,000)	(119,299)	(89,299)
NET CHANGE IN FUND BALANCES	(497,850)	(417,074)	115,502	532,576
Fund Balances - July 1, 2015	1,776,174	1,776,174	1,776,174	-
FUND BALANCES - JUNE 30, 2016	\$ 1,278,324	\$ 1,359,100	\$ 1,891,676	\$ 532,576

The accompanying notes are an integral part of this statement.

Hazen Public School District No. 3  
Notes to Required Supplementary Information  
June 30, 2016

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

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

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

NOTE 2      CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experiences study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 3      STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hazen Public School District No. 3 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hazen Public School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hazen Public School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Hazen Public School District No. 3's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described as findings 2016-001 and 2016-002 in the accompanying schedule of findings that we consider to be significant deficiencies.

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

**Compliance and Other Matters**

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

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

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

**Purpose of this Report**

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



Mahlum Goodhart, PC  
Mandan, North Dakota  
December 30, 2016

HAZEN PUBLIC SCHOOL DISTRICT NO. 3  
Schedule of Findings  
For the Year Ended June 30, 2016

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

Financial Statements

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

**SECTION II – FINANCIAL STATEMENT AUDIT**

*Significant Deficiencies*

**Finding 2016-001: Segregation of Duties**

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

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

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

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

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

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

**Finding 2016-002: Preparation of the Financial Statements**

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

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

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

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

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

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