

**HOPE PUBLIC SCHOOL
DISTRICT NO. 10**

HOPE, NORTH DAKOTA

Basic Financial Statements
As of
June 30, 2016
And
Independent Auditor's Report



DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

Trusted Accounting Professionals

Beth A. Dempsey, CPA

213 1st Avenue South
Jamestown, ND 58401-4249

509 Main Avenue
Edgeley, ND 58433-7119

Hope Public School District No. 10
 Hope, North Dakota
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Hope Public School District No. 10
Hope, North Dakota

**List of Officials
2015 - 2016**

Officials

Josh Ihry

Darren Meyer

Bill Erbstoesser

Trevor Jacobsen

Jeff Juliuson

Mark Weston

Alli Roller

Office

President

Vice-President

Member

Member

Member

Superintendent

Business Manager



DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

Trusted Accounting Professionals

Beth A. Dempsey, CPA

213 1st Avenue South
Jamestown, ND 58401-4249
701-252-7029 FAX: 701-252-7053

509 Main Avenue
Edgeley, ND 58433-7119
701-493-2341 FAX: 701-493-2341

INDEPENDENT AUDITOR'S REPORT

To the President and Board
Hope Public School District No. 10
Hope, North Dakota

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hope Public School District No. 10, 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.

Hope Public School District No. 10
INDEPENDENT AUDITOR'S REPORT (Continued)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

Management has not recorded capital assets in the governmental activities and the business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated which would increase the assets, net assets, and expenses of the governmental activities, and business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities and business-type activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hope Public School District No. 10, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension liability and contributions on pages 7-12, 37-38 and 39-41 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.

Hope Public School District No. 10
INDEPENDENT AUDITOR'S REPORT (Continued)

Other Reporting Required by *Government Auditing Standards*

Change in Accounting Principle

As discussed in Note 8 to the financial statements, in 2015 the Board adopted new accounting guidance. GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016, on our consideration of Hope Public School District No. 10'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 Hope Public School District No. 10's internal control over financial reporting and compliance.

Dempsey Accounting and Tax Services P.C.

Dempsey Accounting and Tax Services P.C.
Jamestown, North Dakota
November 3, 2016

Hope Public School District No. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The discussion and analysis of Hope Public School District No. 10's financial performance provides an overview of the financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

Financial Highlights

Key financial highlights for the year ended June 30, 2016 are as follows:

- Net position of the District increased by \$62,446 as a result of the current year's operations.
- Total revenues from all sources were \$2,370,966.
- Total expenditures were \$2,308,520.
- The District's net position totaled \$536,401.
- The District's general fund had \$2,216,638 in total revenues and transfers in and \$2,277,691 in total expenditures and transfers out. Overall the general fund balance decreased \$61,053 for the year ended June 30, 2016.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to the other nonfinancial factors in addition to the financial information provided in this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The second government-wide statement is the *Statement of Activities* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenue provided.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. The District's major governmental fund is the General Fund.

Governmental Funds

The District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

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. The school district's only fiduciary fund is the School Activity Fund, which is used primarily to segregate money held trust for student organizations and similar activities. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Hope Public School District No. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Change in Accounting Principle

In 2015 the Board adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. In 2016, the Board adopted accounting guidance, GASB Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments.

Financial Analysis of the District as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole. This is the first year that GASB statement No. 34 was implemented so no comparison with prior year is available.

The District's net position at fiscal year-end is \$536,401. The following tables provide a summary of the District's net position and the changes in net position at June 30, 2016.

Table 1: Summary of Net Position

	<u>2016</u>
ASSETS	
Current assets & other assets	\$1,673,739
Total Assets	<u>\$1,673,739</u>
DEFERRED OUTFLOWS OF RESOURCES	\$236,249
LIABILITIES	
Payroll liability	\$30,054
Net pension liability	\$1,146,985
Total Liabilities	<u>\$1,177,039</u>
DEFERRED INFLOWS OF RESOURCES	\$196,548
NET POSITION	
Restricted for:	
Building fund	\$770,628
Hot lunch fund	\$15,869
Special reserve	\$26,474
Unrestricted	<u>\$(276,570)</u>
Total Net Position	<u>\$536,401</u>

Hope Public School District No. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 2: Summary of Change in Net Position

	<u>2016</u>
REVENUES	
Program revenue	
Charges for services	\$30,297
Operating grants	122,098
General revenue	
Property taxes	697,649
State aid	992,298
Other	528,624
Total revenue	<u>2,370,966</u>
EXPENDITURES	
Instruction	703,332
Support services	1,456,170
Hot lunch program	81,027
Student activities	77,264
Pension expense	(9,273)
Total expenditures	<u>2,308,520</u>
INCREASE (DECREASE) IN NET POSITION	<u><u>\$62,446</u></u>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table 3: Cost of Program Services

	Total Cost for Year Ended June 30, 2016	Net Cost Revenue for Year Ended June 30, 2016
Instruction	\$703,332	\$663,808
Instructional staff services	128,016	128,016
Administrative services	351,593	351,593
Operations and maintenance	362,509	362,509
Student transportation	190,666	121,212
Hot lunch program	81,027	37,610
Student activities	77,264	77,264
Services provided	423,386	423,386
Pension expense	(9,273)	(9,273)
Total Expenditures	<u>\$2,308,520</u>	<u>\$2,156,125</u>

Hope Public School District No. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the District's Governmental Funds

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

The District derived its revenue from local, state and federal sources. Local financial resources include a general fund property tax levy and services provided to others. State revenues were generated primarily from foundation aid per pupil, state transportation aid, and vocational and handicapped program aid. Federal revenues were received from Title I program aid, Title II REAP and a professional development grant.

Local Revenue	\$1,248,841
State Revenue	\$1,082,600
Federal Revenue	\$39,525

The District's governmental funds had total revenues of \$2,370,966 and expenditures of \$2,317,793 for the year ended June 30, 2016. As of June 30, 2016, the unassigned fund balance of the District's governmental funds was \$817,854.

General Fund Budget Highlights

During the course of fiscal year 2016, the District's original budget was not amended. Actual revenue for the year ended June 30, 2016 was \$582,569 more than budgeted because of a settlement payment from Page Public School District. Actual expenditures for the year ended June 30, 2016 were over the original budget by \$413,913 which included a settlement payment to Page Public School District. The budget is used as a spending guide, which the District takes seriously.

Capital Assets

Management has not recorded capital assets in the governmental activities and the business-type activities and, accordingly, has not recorded depreciation expense on those assets.

Debt Administration

As of June 30, 2016 the District had no outstanding long-term debt.

Hope Public School District No. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Significant Factors that can affect the Financial Position or Results of Operations in the Future

Maintaining highly qualified staff, keeping current with technology, providing a wide variety of course offerings that help prepare students for college and careers, and maintaining the facility continue to be our top priorities. A continued decrease in state and federal funding will result in the need for an increased use of local dollars to reach these goals. We continue to meet employee staffing to meet the needs of our district, and meet all state requirements.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of Hope Public School District No. 10's finances and to show the accountability for the money received. Anyone who has questions about the information contained in this report or is interested in receiving additional information is encouraged to contact Hope Public School District No. 10, PO Box 100, Hope, North Dakota 58046; phone (701) 945-2473.

Hope Public School District No. 10
STATEMENT OF NET POSITION
As of June 30, 2016

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$1,673,739
Deferred outflows of resources	
Pension related deferred outflows of resources	236,249
Total Assets	1,909,988
 LIABILITIES	
Short-term	
Payroll liabilities	30,054
Long-term	
Net pension liability	1,146,985
Total Liabilities	1,177,039
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue – property taxes	15,384
Pension related deferred inflows of resources	181,164
Total Deferred Inflows of Resources	196,548
 NET POSITION	
Restricted for	
Building Fund	770,628
Hot Lunch Fund	15,869
Special Assessment Fund	26,474
Unrestricted	(276,570)
Total Net Position	\$536,401

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
STATEMENT OF ACTIVITIES
For the Year ended June 30, 2016

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants / Contribution	Revenue & Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$669,969	\$	\$	(\$669,969)
Special programs	33,363		39,524	6,161
Total instruction	<u>703,332</u>		<u>39,524</u>	<u>(663,808)</u>
Support services:				
Instructional staff services	128,016			(128,016)
Administrative services	351,593			(351,593)
Operations and maintenance	362,509			(362,509)
Student transportation	190,666		69,454	(121,212)
Hot lunch program	81,027	30,297	13,120	(37,610)
Student activities	77,264			(77,264)
Services provided	423,386			(423,386)
Pension expense	(9,273)			9,273
Total support services	<u>1,605,188</u>	<u>30,297</u>	<u>82,574</u>	<u>(1,492,317)</u>
Total governmental activities	<u>\$2,308,520</u>	<u>\$30,297</u>	<u>\$122,098</u>	<u>(\$2,156,125)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				588,219
Property taxes, levied for building fund purposes				109,430
State aid not restricted for specific purposes				
Foundation aid per pupil				992,298
Services provided				404,754
Vocational aid				7,728
Interest income				19,647
Other sources				96,495
Total general revenues				<u>2,218,571</u>
Changes in net position				62,446
Net position, beginning				473,955
Net position ending				<u>\$536,401</u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
BALANCE SHEET
GOVERNMENT FUNDS
As of June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$860,768	\$812,971	\$1,673,739
Total Assets	<u>\$860,768</u>	<u>\$812,971</u>	<u>\$1,673,739</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES			
Liabilities			
Payroll liabilities	\$30,054	\$ -	\$30,054
Total liabilities	<u>\$30,054</u>	<u>\$ -</u>	<u>\$30,054</u>
 Deferred inflows of resources			
Unavailable revenue – property taxes	\$12,860	\$2,524	\$15,384
Total deferred inflows of resources	<u>\$12,860</u>	<u>\$2,524</u>	<u>\$15,384</u>
 Fund Balances			
Restricted for:			
Hot lunch fund	-	15,869	15,869
Building fund	-	768,104	768,104
Special assessment fund	-	26,474	26,474
Unassigned			
General Fund	817,854	-	817,854
Total fund balance	<u>\$817,854</u>	<u>\$810,447</u>	<u>\$1,628,301</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$860,768</u>	 <u>\$812,971</u>	 <u>\$1,673,739</u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION**
As of June 30, 2016

Amounts reported for government activities in the statement of net position are different because:

Total fund balances - governmental funds	\$1,628,301
Pension related deferred outflows of resources	236,249
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore, not recorded in the fund statements:	
Net pension liability	(1,146,985)
Pension related deferred inflows of resources	<u>(181,164)</u>
Total net position - governmental activities	<u><u>\$536,401</u></u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCE GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Local sources	\$992,972	\$139,727	\$1,132,699
State sources	1,069,480	13,120	1,082,600
Federal sources	39,525	-	39,525
Other sources	114,661	1,481	116,142
Total revenues	<u>2,216,638</u>	<u>154,328</u>	<u>2,370,966</u>
EXPENDITURES			
Instruction:			
Regular	669,969	-	669,969
Special Programs	33,363	-	33,363
Total instruction	<u>703,332</u>	<u>-</u>	<u>703,332</u>
Support Services:			
Instructional staff services	128,016	-	128,016
Administration services	351,593	-	351,593
Operations and maintenance	362,509	-	362,509
Hot lunch program	40,925	40,102	81,027
Student transportation	190,666	-	190,666
Student activities	77,264	-	77,264
Services provided	423,386	-	423,386
Total support services	<u>1,574,359</u>	<u>40,102</u>	<u>1,614,461</u>
Total expenditures	<u>2,277,691</u>	<u>40,102</u>	<u>2,317,793</u>
Excess (deficiency) of revenues over expenditures	(61,053)	114,226	53,173
Change in fund balance	(61,053)	114,226	53,173
Fund balance beginning of year	878,907	696,221	1,575,128
Fund balance end of year	<u>\$817,854</u>	<u>\$810,447</u>	<u>\$1,628,301</u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

As of June 30, 2016

Amounts reported for government activities in the statement of net activities are different because:

Net change in fund balance - total government funds	\$53,173
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
Pension expense	<u>9,273</u>
Net change in net position of governmental activities	<u>\$62,446</u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
As of June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$27,808</u>
Total Assets	<u><u>\$27,808</u></u>
LIABILITIES	
Due to student groups	<u>\$27,808</u>
Total Liabilities	<u><u>\$27,808</u></u>

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2016

Note 1 Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental accounting and financial reporting principles in the United States. The accounting policies of Hope Public School District No. 10 conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. Hope Public School District No. 10 operates the public schools for the city of Hope, North Dakota and surrounding area. The following is a summary of the significant accounting policies used by Hope Public School District No. 10.

Reporting Entity -The Hope Public School District No. 10 is the basic level of government which has financial accountability and control over all activities related to the public school education in District No. 10. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

Basics of Presentation -The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-wide Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of net position presents the financial condition of the governmental activities of the District at year-end.

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 revenue includes (1) charges to recipients for goods or services provided by a given program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are reported instead as general revenue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Financial Statements - In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund Accounting - Governmental funds are utilized to account for most of Hope Public School District No. 10's government functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds are as follows:

General Fund - This fund is the general operating fund of Hope Public School District No. 10. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The District's Special Revenue Fund consists of the School Lunch Fund which is used to account for the operations of the school food service. Any operating deficit generated by this activity is the responsibility of the General Fund.

Capital Projects Fund - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The District's Building Fund accounts for special taxes levied for construction and major repairs to the district plant and payment of interest, principal, and other expenditures on the long-term debt.

Fiduciary Fund - The reporting focus of fiduciary funds is on net assets and changes in net assets.

Agency Fund - The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the Student Activity Fund, which account for the financial transactions related to student activity programs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. All assets and liabilities associated with the operation of the District are included in the statement of net position.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Hope Public School District No. 10 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Only current assets, current liabilities and fund balances are generally included on the balance sheet.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the differences, Hope Public School District No. 10's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Other Accounting Policies

Revenues-Exchange and Non-Exchange Transactions - Exchange transactions are transactions in which each party gives and receives essential equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

The District recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Non-exchange transactions include transactions which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Hope Public School District No. 10

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District. Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

Expenses and Expenditures - Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

Budgets and Budgetary Accounting - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and all special revenue funds.

Hope Public School District No. 10's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 25.

The budget may be amended during the year by the Board for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board. All appropriations lapse at the close of the fiscal year.

To provide a meaningful comparison of the District's actual results compared to the budgeted results, the Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual are prepared on the District's budgetary basis. Under the district's budgetary basis of accounting, revenues are budgeted on the modified accrual basis of accounting.

Expenditures are also budgeted on the modified accrual basis except teachers' salaries and benefits. The District allows teachers to take their compensation in nine or twelve payments. The budget is prepared estimating the entire contract cost regardless when actual payment is made.

Cash and Cash Equivalents - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

All deposits of the school district are made in Board-Designated official depositories and are secured as required by law.

Hope Public School District No. 10

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Investments - Investments are recorded at fair value. North Dakota state statute authorizes Hope Public School District No. 10 to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by financial institution in which underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation, and d) obligations of the state.

Receivables - Taxes receivable consist of current and delinquent uncollected taxes as of June 30, 2016. Due from governmental agencies consists of federal and state aid that has not been received by the end of the fiscal year. No allowance has been established for uncollectible amounts.

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

Property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second is due by October 15. A 5% discount on the property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed. Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes. Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

Capital Assets - Management has not recorded capital assets in the governmental activities and the business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated which would increase the assets, net assets, and expenses of the governmental activities, and business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities and business-type activities is not reasonably determinable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

Deferred outflows and inflows of resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The District had two items that meet this criterion – a pension related deferral and contributions made to the pension plan in the current fiscal year. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to the future period and so will not be recognized as revenue until then. The District has two items that meets this criterion – a pension related deferral and uncollected revenue – property taxes.

Compensated Absences - Hope Public School District No. 10 has adopted various policies regarding the accumulation of sick leave based on staff categories and full and part-time employment status. Upon termination, no compensation is paid to employees for accumulated sick leave. Earned vacation time is generally required to be used in the year earned. Professional staff are paid \$75 per day for any unused personal leave at year end, up to a maximum accumulated of three days. Reasonable estimation of the resulting liability cannot be met, and there is no accrual made for compensated absences. The amount to be paid from current reserves is not significant and the resulting liability is deemed to be immaterial.

Accrued Liabilities and Long-Term Obligations - All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Hope Public School District No. 10's governmental fund financials report only those obligations that will be paid from current financial resources.

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

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

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors through the adoption of a resolution. The Board also may modify or rescind the commitment.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the Board has authorized the District's Superintendent to assign fund balances.
- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The District reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the District's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the District's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position - Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on Hope Public School District No. 10. External restrictions may be imposed through state or local laws, and grant or contract provisions.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Comparative Data - Comparative data is not included in Hope Public School District No. 10's financial statements.

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 2 Cash & Cash Equivalents

The following is a summary of the cash balances at June 30, 2016:

	<u>Balance per Bank Records</u>	<u>In Transit Items</u>	<u>Balance per District Records</u>
Checking Accounts			
Dakota Heritage Bank, Hope, ND			
General Fund	\$689,894	(\$165,515)	\$524,379
Building Fund	797,102	-	797,102
Hot Lunch Fund	19,149	(3,280)	15,869
Activity Fund	28,180	(372)	27,808
Total checking accounts	<u>\$1,534,325</u>	<u>(\$169,167)</u>	<u>\$1,365,158</u>
Savings and Investment Accounts			
Dakota Heritage Bank, Hope, ND			
General Fund	<u>336,389</u>		<u>336,389</u>
Cash consists of:			
Governmental funds	673,739		
Fiduciary fund	<u>27,808</u>		
Total	<u><u>\$1,701,547</u></u>		

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance. The District's board approves and designates a list of depository institutions.

Pledges of Securities by Depository - Following is a schedule of the amount of money on deposit in the District's bank at June 30, 2016, and the amount of securities the bank has pledged as collateral along with insurance coverage for the deposits:

	<u>Amount on Deposit June 30, 2016</u>	<u>Amount of Pledged and F.D.I.C. and N.C.U.S.I.F. Insurance</u>
Dakota Heritage Bank	<u>\$1,701,547</u>	<u>\$3,240,000</u>

All deposits are Category 1 with deposits insured or registered in the name of the District, or securities held by the District or its agent in its name. The pledge of securities and insurance coverage is Not less than the deposits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 2 Cash & Cash Equivalents (Continued)

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligation. State statutes authorize the District to invest in (1) Bonds, treasury bill and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress; (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above; (3) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; (4) Obligations of the state. All investments are stated at cost.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certificates of deposit may not be purchased with maturities greater than 365 days from the date of purchase.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

Note 3 Legal Compliance - Budgets

The school board has not amended the school district budget. General fund expenditures were over budget by \$413,913. No remedial action is anticipated by the district regarding the excess expenditures.

Note 4 Unavailable Revenue

Unavailable Revenue – Property Taxes:

General Fund	\$12,860
Building Fund	2,524
Total Unavailable Revenue – Property Taxes	<u>\$15,384</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

North Dakota Teachers' 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.

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement (Continued)

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with

benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement (Continued)

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or

twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement (Continued)

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

At 06/30/2016, the Employer reported a liability of \$1,267,469 for its proportionate share of the net pension liability. The net pension liability was measured as of 06/30/2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At 06/30/2015, the Employer's proportion was 0.096912 percent, which is a decrease of 0.004669 from its proportion measured as of 06/30/2014.

For the year ended 06/30/2016, the Employer recognized pension expense of \$76,350. At 06/30/2016, the Employer 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	\$ 8,306	\$ X,XXX
Changes of assumptions	142,315	X,XXX
Net difference between projected and actual earnings on pension plan investments	X,XXX	14,293
Changes in proportion and differences between employer contributions and proportionate share of contributions	X,XXX	46,377
Employer contributions subsequent to the measurement date (see below)	<u>*85,624</u>	<u>X,XXX</u>
Total	<u>\$236,245</u>	<u>\$60,670</u>

\$85,624 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 06/30/2017.

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement (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:

Year ended June 30:

2017	\$ 6,807
2018	6,807
2019	35,647
2020	17,590
Thereafter	16,294

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 assumptions used in the July 1, 2015, funding actuarial valuation for TFFR.

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

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

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5 North Dakota Teachers' Fund for Retirement (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%	7.50%
Global Fixed Income	22%	1.30%
Global Real Assets	20%	5.40%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change 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 Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$1,675,020	\$1,267,469	\$927,580

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

Hope Public School District No. 10
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 6 Federal and State Grants

In the normal course of operations, Hope Public School District No. 10 receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2016.

Note 7 Non-Monetary Transactions

Hope Public School District No. 10 receives food commodities from the federal government to subsidize its hot lunch program. The commodity distribution value received for the year ended June 30, 2016 was \$4,587.

Note 8 Risk Management

Hope Public School District No. 10 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence.

Hope Public School District No. 10 also participates in the North Dakota Fire and Tornado Fund. The District pays an annual premium to the Fire and Tornado Fund to cover Property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$500,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Hope Public School District No. 10 participates in the North Dakota Worker's Compensation Bureau and purchases commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

Hope Public School District No. 10

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 9 Change in Accounting Principles/Restatement

The District implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pension (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the District to record beginning net pension liability and the effects on net position of contributions made by the District during the measurement period (fiscal year 2014). As a result, net position for the governmental activities decreased by \$1,112,515.

Hope Public School District No. 10
BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		General Fund	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$559,668	\$559,668	\$992,972	\$433,304
Other local sources	37,000	37,000	114,661	77,661
State sources	1,003,277	1,003,277	1,069,480	66,203
Federal sources	34,124	34,124	39,525	5,401
Total revenues	\$1,634,069	\$1,634,069	\$2,216,638	\$582,569
EXPENDITURES				
Instruction:				
Regular	\$703,488	\$703,488	\$669,969	\$33,519
Special programs	50,268	50,268	33,363	16,905
Support Services:				
Instructional staff services	173,466	173,466	128,016	45,450
Administration services	302,158	302,158	351,593	(49,435)
Operations and maintenance	369,009	369,009	362,509	6,500
Student transportation	138,859	138,859	190,666	(51,807)
Food services	43,850	43,850	40,925	2,925
Services provided	-	-	423,386	(423,386)
Student activities	82,680	82,680	77,264	5,416
Total expenditures	\$1,863,778	\$1,863,778	\$2,277,691	\$(413,913)
Excess (deficiency) of revenues over expenditures	\$(229,709)	\$(229,709)	\$(61,053)	\$168,656
Fund balance beginning of year	878,907	878,907	878,907	-
Fund balance (deficit) end of year	\$649,198	\$649,198	\$817,854	\$168,656

The accompanying notes are an integral part of these financial statements.

Hope Public School District No. 10
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
As of June 30, 2016

Note 1 Summary of Significant Budget Policies

Based upon available financial information and requests by the governing board, the business manager prepares the school district budget. The budget is prepared for the general fund and Special Revenue Fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at fiscal year-end.

School district taxes must be levied by the governing board on or before August 15. The taxes levied must be certified to the county auditor by August 25. The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by October 10. 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.

Note 2 Legal Compliance - Budgets

The governing board did not amend the school district's budget for the year ending June 30, 2016.

Hope Public School District No. 10
Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

	2015
1. Employer's proportion of the net pension liability (asset)	0.101581%
2. Employer's proportionate share of the net pension liability (asset)	\$1,064,389
3. Employer's covered-employee payroll	\$589,222
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.6%
5. Plan fiduciary net position as a percentage of the total pension liability	66.6%

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

Hope Public School District No. 10
Schedule of Employer Contributions
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

	2015
Statutorily required contribution	\$63,341
Contributions in relation to the statutorily required contribution	(\$63,341)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$589,222
Contributions as a percentage of covered-employee payroll	10.75%

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

Hope Public School District No. 10
Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

	2016
1. Employer's proportion of the net pension liability (asset)	0.096912%
2. Employer's proportionate share of the net pension liability (asset)	\$1,267,469
3. Employer's covered-employee payroll	\$596,108
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.6%
5. Plan fiduciary net position as a percentage of the total pension liability	62.1%

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

Hope Public School District No. 10
Schedule of Employer Contributions
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

	2016
Statutorily required contribution	\$76,000
Contributions in relation to the statutorily required contribution	(\$76,000)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$596,108
Contributions as a percentage of covered-employee payroll	12.75%

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

Hope Public School District No. 10
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Changes of assumptions. 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.



DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

Trusted Accounting Professionals

Beth A. Dempsey, CPA

213 1st Avenue South
Jamestown, ND 58401-4249
701-252-7029 FAX: 701-252-7053

509 Main Avenue
Edgeley, ND 58433-7119
701-493-2341 FAX: 701-493-2341

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

To the President and Board
Hope Public School District No. 10
Hope, 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 government activities, the major fund, and the aggregate remaining fund information of Hope Public School District No. 10, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hope Public School District No. 10's basic financial statements, and have issued our report thereon dated November 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hope Public School District No. 10'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 Hope Public School District No. 10's internal control. Accordingly, we do not express an opinion on the effectiveness of Hope Public School District No. 10's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness.

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Preparing Financial Statements – Design Deficiency:

Condition: Management has not identified risks to the preparation of reliable financial statements. Dempsey Accounting and Tax Services P.C. assists the District's management in preparing financial statements that are presented, including note disclosures, in accordance with generally accounting principles.

Criteria: Risks should be identified that impact the presentation of reliable financial statements. The COSO framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the financial statements and the management of those risks. As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

Cause: Hope Public School District No. 10 does not analyze the risks of material misstatements and has not determined how identified risks should be managed. The District Board feels it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

Effect: Lack of identification of possible risks provides an opportunity for fraud to occur and could increase errors and misstatements. This increases the risk of misstatement of the District's financial condition. Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: Design of effective controls and management of those controls over the preparation of the financial statements will aid in prevention and detection of material misstatements, including footnote disclosure. We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following to be a significant deficiency.

Lack of Segregation – Design Deficiency:

Condition: One employee collects monies, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial statements.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. COSO states that controls and the monitoring of those controls are important components of risk management.

Cause: Hope Public School District No. 10 has one person responsible for most accounting functions making complete segregation of duties difficult.

Effect: A lack of internal controls provides an opportunity for fraud to occur and for increased errors and misstatements. This increases the risk of misstatement of the District's financial condition.

Recommendation: Segregation of duties would provide better control over the assets of the Center. These functions should be monitored by the Board.

For Capital Assets Records – Operating Effectiveness:

Condition: Hope Public School District No. 10 does not maintain complete capital assets records.

Criteria: Accounting principles generally accepted in the United States of America require the financial statements include the capital assets, net of accumulated depreciation.

Cause: Hope Public School District No. 10 does not analyze the risks of material misstatement and has not determined how the lack of complete capital asset records will affect the financial statements.

Effect: The omission of capital assets from the financial statements results in an adverse report on the district's financial statements.

Recommendation: The District should establish capital asset records using historical cost and depreciation schedules for these assets. Also detailed capital asset records showing additions and deletions should be maintained. The District plans to establish and maintain adequate capital asset records as time allows.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hope Public School District No. 10's financial statements are free from material misstatement, we performed tests of 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*.

Hope Public School District No. 10's Response to Findings

Hope Public School District No. 10's response to the findings identified in our audit is described following this report. Hope Public School District No. 10's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dempsey Accounting and Tax Services P.C.

Dempsey Accounting and Tax Services P.C.
Jamestown, North Dakota
November 3, 2016

**DISTRICT RESPONSE AND CORRECTIVE ACTION TO AUDIT FINDINGS ON
INTERNAL CONTROL**

Hope Public School District No. 10's Board realizes it is extremely hard to have the ultimate of internal controls and segregation of duties with a staff of one person and believes that the controls presently in place do a good job of mitigating the risk that the financial statements are misstated. They feel it is not economically feasible to have enough employees hired to provide for the necessary segregation of duties. They believe providing policies and procedures for the accounting function and strong board oversight is adequate. The District will continue to request that Dempsey Accounting and Tax Services P.C. assist with the preparation of financial statements; however, the Board will continue to instruct the District Administration to provide all requested schedules. The District plans to establish and maintain adequate capital asset records as time allows.



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November 3, 2016

To the President and Board
Hope Public School District No. 10
Hope, North Dakota

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hope Public School District No. 10 for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and if applicable, Government Auditing Standards), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 6, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hope Public School District No. 10 are described in Note 1 to the financial statements. The District implemented GASB Statement 68, *Accounting and Financial Reporting for Pension* in the fiscal year ending June 30, 2015 GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*. No other new accounting policies were adopted and the application of existing policies was not changed during the 2015-2016 year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements for management to correct.

Disagreements with Management

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

Management Representations

We have requested certain representation from management that are included in the management representation letter dated November 3, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the

underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board and management of Hope Public School District No. 10 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Dempsey Accounting and Tax Services P.C.

Dempsey Accounting and Tax Services P.C.