

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

AUDIT REPORT
Year Ended June 30, 2016

Nadine Julson, LLC

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

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NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

Official Directory
June 30, 2016

President	Jamie Decker
Vice-President	Kris Beck
Board Member	Shelly Bopp
Board Member	Chris Mathias
Board Member	Sy Hansana
Superintendent	Randall Cale
Business Manager	Donna Anderson

Nadine Julson, LLC
Nadine Julson, Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

School Board
North Sargent Public School District No. 3
Gwinner, North Dakota 58040

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the North Sargent Public School District No. 3, Gwinner, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Independent Auditor's Report – Continued

OPINIONS

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the North Sargent Public School District No. 3, Gwinner, 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.

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 schedules on pages 5-10 and pages 37-38 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. I 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 inquires 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Sargent Public School District No. 3's basic financial statements.

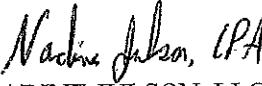
The combining nonmajor fund financial statements and the statement of receipts and disbursements – activity fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and the statement of receipts and disbursements – activity fund are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining nonmajor fund financial statements and the statement of receipts and disbursements – activity fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Independent Auditor's Report – Continued

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, I have also issued a report dated November 23, 2016, on my consideration of the School District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Sargent Public School District No. 3's internal control over financial reporting and compliance.


NADINE JULSON, LLC
Wahpeton, North Dakota
November 23, 2016

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of North Sargent Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of the MD&A is to look at the School District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is an element of the Required Supplementary information specified in the Government Accounting Standards Board's (GASB) Statement No. 34-*Basic Financial Statements- and Management's Discussion and Analysis- For State and Local Governments*. Certain comparative information between the current fiscal year and the prior year is presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015-2016 are as follows:

Technology continues to be a focus with the following improvements:

- Emphasis was to be in the Activity Center with Girl Volleyball, Girls Basketball and Boys Basketball. To accomplish the move, the following was needed:
 - New score boards were purchased.
 - Collapsible bleachers for the stage was purchased.
 - Storage building was purchased for equipment that needed to be moved during the three sports.
- Curricula updates in Agricultural Education, Health, Elementary Social Studies.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand North Sargent Public School District No. 3 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's general fund with all other governmental funds presented in total in one column.

REPORTING ON THE DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the North Sargent Public School District No. 3 to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended June 30, 2016?"

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two 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 School District is improving or deteriorating.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis – Continued

The Statement of Activities presents information on how the School District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes).

These two statements report the District's net position and changes in net position. The change in net position is important because it tells the reader whether, for the School District as a whole, the financial position of the School District has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

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 School District's programs and services are reported including, but not limited to, regular instruction, federal programs, special education, vocational education, administration, food services, operation and maintenance of buildings and grounds, student transportation, and co-curricular activities.

The government-wide financial statements can be found on pages 11-12 of this report.

REPORTING ON THE DISTRICT'S MOST SIGNIFICANT FUNDS

Balance Sheet – Governmental Funds

The District uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the School District to demonstrate its stewardship over the accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the district's major funds. Using the criteria established by GASB Statement No. 34, the School District's general fund, capital projects and food service funds are considered "major funds".

The School District's other fund, which is the special reserve, is used to account for a multitude of financial transactions and is summarized under the heading "Other Governmental Funds".

The basic governmental fund financial statements can be found on pages 13-16 of this report.

In addition, the School District has the following fund type:

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the North Sargent Public School District No. 3's own programs.

The basic fiduciary fund financial statement can be found on page 17 for this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-36 of this report.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis – Continued

The combining statements referred to earlier in connection with nonmajor government funds can be found on pages 40-41 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table I provides a summary of the School District's net position as of June 30, 2016. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the North Sargent Public School District No. 3, net position decreased by \$274,174 for the year ending June 30, 2016.

The School District's net position at June 30, 2016, was \$13,193 which is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net position are available to meet the School District's ongoing obligations.

Table I
Net Position
June 30, 2016 and 2015

	2016	2015
Assets and Deferred Outflows:		
Current assets	\$ 1,055,504	\$ 1,044,032
Capital assets (net of accumulated depreciation)	1,409,849	1,479,789
Deferred outflows of resources	649,742	178,383
Total assets and deferred outflows	<u>3,115,095</u>	<u>2,702,204</u>
Liabilities and Deferred Inflows:		
Current liabilities	11,246	3,444
Long-term liabilities	3,001,009	2,167,439
Deferred inflows of resources	89,647	243,954
Total liabilities and deferred inflows	<u>3,101,902</u>	<u>2,414,837</u>
Net Positions:		
Net invested in capital assets	1,409,849	1,479,789
Restricted	306,395	276,913
Unrestricted (deficit)	<u>(1,703,051)</u>	<u>(1,469,335)</u>
Total net position	<u>\$ 13,193</u>	<u>\$ 287,367</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis – Continued

Table II shows the changes in net position for the fiscal years ended June 30, 2016.

Table II
Changes in Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
<u>Program Revenues:</u>		
Charges for services	\$ 72,353	\$ 78,119
Operating grants and contributions	161,779	167,408
<u>General Revenues:</u>		
Property taxes	437,332	449,260
State Aid - unrestricted	2,501,616	2,408,755
Interest earnings and miscellaneous revenue	24,731	22,632
Total revenues	<u>3,197,811</u>	<u>3,126,174</u>
Expenses:		
Regular instruction	\$ 1,854,942	\$ 1,499,646
Special instruction	344,563	186,037
Vocational education	133,705	131,411
Pupil services	135,654	132,050
General administration services	180,554	182,363
School administration services	147,430	142,960
Operation and maintenance	286,995	298,636
Pupil transportation	98,747	74,651
Student activities	178,019	140,409
School food services	111,376	113,083
Total expenses	<u>3,471,985</u>	<u>2,901,246</u>
Net change in Net Position	<u>\$ (274,174)</u>	<u>\$ 224,928</u>

Unrestricted state aid constituted 78.2%, property taxes 13.7%, operating grants and contributions 5.1%, and charges for services made up 2.3% of the total revenues of governmental activities of the School District for fiscal year 2015-2016.

Regular instruction 53.4%, operation & maintenance of plant 8.3%, general administration 5.2%, and special education constituted 9.9% of total expenditures for governmental activities during fiscal year 2015-2016.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis – Continued

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III 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 III
Total and Net Cost of Services
For the Years Ended June 30, 2016 and 2015

	Total Cost		Net Cost (Revenue)	
	2016	2015	2016	2015
Regular instruction	\$ 1,854,942	\$ 1,499,646	\$ (1,790,978)	\$ 1,421,742
Special instruction	344,563	186,037	(344,563)	186,037
Vocational education	133,705	131,411	(125,680)	123,412
Pupil services	135,654	132,050	(135,654)	132,050
General administration services	180,554	182,363	(180,554)	182,363
School administration services	147,430	142,960	(147,430)	142,960
Operation and maintenance	286,995	298,636	(286,995)	298,636
Pupil transportation	98,747	74,651	(49,754)	27,151
Student activities	178,019	140,409	(174,269)	136,284
School food services	111,376	113,083	(1,976)	5,084
Total expenses	\$ 3,471,985	\$ 2,901,246	\$ (3,237,853)	\$ 2,655,719

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The purpose 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 can be used as a measure of the School District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

The School District's governmental funds had total revenue of \$3,195,996 and expenditures of \$3,194,141 for the year ended June 30, 2016. As of June 30, 2016, the unassigned fund balance of the School District's general fund was \$728,809.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, revenues were less than budgetary estimates by \$84,086, expenditures were less than budgetary estimates by \$93,580, and ending fund balance exceeded budgetary estimates by \$9,494. Revenues were overestimated from state foundation payments and budgetary estimates for expenditures were higher than actual expenditures due to lower salaries for regular instruction.

Additional information on the North Sargent Public School District No. 3 budget can be found in Note 2 of the audited financial statements that follow this analysis.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Management's Discussion and Analysis – Continued

CAPITAL ASSETS

As of June 30, 2016, the North Sargent Public School District No. 3 had \$1,409,849 invested in capital assets. Table IV shows the balances as of June 30, 2016 and 2015.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
As of June 30, 2016 and 2015

	2016	2015
Buildings	\$ 1,198,902	\$ 1,242,174
Vehicles	121,343	138,691
Equipment	89,604	98,924
Total capital assets (Net of accumulated depreciation)	\$ 1,409,849	\$ 1,479,789

This total represents a net decrease of \$69,940 in capital assets from July 1, 2015. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 9 of the audited financial statements that follow this analysis.

DEBT ADMINISTRATION

As of June 30, 2016, the North Sargent Public School District No. 3 had no outstanding general obligation debt.

For additional information regarding the outstanding debt, readers are referred to Note 11 of the audited financial statements that follow this analysis.

FOR THE FUTURE

- Technology upgrades will continue to be on the forefront:
 - Upgrade old/poorly functioning ActivBoards.
 - One-One devices in the high school.
 - Upgrade aging computers in labs and teacher's classrooms.

- Professional Development will continue to be a top priority.
 - Multi-Tiered Support System for students not reading at grade level or performing math at grade level.
 - Individualized Professional Development Plan

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the North Sargent Public School District No. 3's finances and to show the School District's accountability for the money it receives to provide the best possible education to all students enrolled in North Sargent Public School District No. 3. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Donna Anderson at P.O. Box 289, Gwinner, North Dakota, 58040-0289, 701-678-2492.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
ASSETS:	
Cash and investments	\$ 987,998
Due from state government	2,675
Due from county	17,803
Due from federal government	36,579
Taxes receivable	10,449
Capital Assets:	
Buildings	2,423,599
Vehicles	310,226
Equipment	139,813
Less accumulated depreciation	(1,463,789)
Total capital assets	1,409,849
Total assets	2,465,353
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflow related to pensions	649,742
Total assets and deferred outflows of resources	
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:	
LIABILITIES:	
Accounts payable	11,246
Noncurrent portion of long-term:	
Pension liability	2,982,164
Sick and severance pay	18,845
Total liabilities	3,012,255
DEFERRED INFLOWS OF RESOURCES:	
Deferred inflow related to pensions	89,647
Total liabilities and deferred inflows of resources	
NET POSITION:	
Net investment in capital assets	1,409,849
Restricted:	
Building fund	213,319
Special reserve	91,137
Food service	1,939
Unrestricted (deficit)	(1,703,051)
Total net position	\$ 13,193

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Regular instruction	\$ 1,854,942	\$ 1,950	\$ 62,014	\$ (1,790,978)
Special instruction	344,563	-	-	(344,563)
Vocational education	133,705	-	8,025	(125,680)
Pupil services	135,654	-	-	(135,654)
General administration services	180,554	-	-	(180,554)
School administration services	147,430	-	-	(147,430)
Operation and maintenance	286,995	-	-	(286,995)
Pupil transportation	98,747	-	48,993	(49,754)
Student activities	178,019	3,750	-	(174,269)
School food services	111,376	66,653	42,747	(1,976)
Total governmental activities	\$ 3,471,985	\$ 72,353	\$ 161,779	(3,237,853)
General Revenues:				
Taxes:				
				407,738
				29,594
				2,501,616
				2,280
				22,451
				<u>2,963,679</u>
				Total general revenues
				(274,174)
				Change in Net Position
				<u>287,367</u>
				Net Position - Beginning of year
				<u>\$ 13,193</u>
				Net Position - End of year

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	Major Funds				Total Governmental Funds
	General	Food Service	Capital Projects Building	Other Governmental Funds	
ASSETS:					
Cash and investments	\$ 681,252	\$ 5,831	\$ 211,051	\$ 89,864	\$ 987,998
Due from state government	2,675	-	-	-	2,675
Due from county	15,657	-	1,334	812	17,803
Due from federal government	36,579	-	-	-	36,579
Due from other funds	3,892	-	-	-	3,892
Taxes receivable	9,054	-	934	461	10,449
Total assets	\$ 749,109	\$ 5,831	\$ 213,319	\$ 91,137	\$ 1,059,396
LIABILITIES, DEFERRED INFLOWS OF SOURCES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 11,246	\$ -	\$ -	\$ -	\$ 11,246
Due to other funds	-	3,892	-	-	3,892
Total liabilities	11,246	3,892	-	-	15,138
DEFERRED INFLOWS OF RESOURCES:					
Uncollected taxes receivable	9,054	-	934	461	10,449
Total liabilities and deferred inflows of resources	20,300	3,892	934	-	25,587
FUND BALANCE:					
Restricted:					
Building fund	-	-	212,385	-	212,385
Special reserve	-	-	-	90,676	90,676
Assigned to:					
Food service	-	1,939	-	-	1,939
Unassigned to:					
General fund	728,809	-	-	-	728,809
Total fund balances	728,809	1,939	212,385	90,676	1,033,809
Total liabilities, deferred inflows of resources and fund balances	\$ 749,109	\$ 5,831	\$ 213,319	\$ 90,676	\$ 1,059,396

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total Fund Balances - Governmental Fund		\$	1,033,809
The net position reported for governmental activities in the statement of net position is different because:			
1) Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			2,873,638
2) Accumulated depreciation has not been included in the governmental fund financial statements.			(1,463,789)
3) Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenue in the funds.			10,449
4) Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net assets.			
Pension liability, net of related deferred outflows and inflows	(2,422,069)		
Sick and severance payable	(18,845)		(2,440,914)
Net Position of Governmental Activities		\$	<u>13,193</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE- GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	Major Funds				Total Governmental Funds
	General	Food Service	Capital Projects Building	Other Governmental Funds	
REVENUES:					
Local sources	\$ 393,334	\$ 66,653	\$ 29,594	\$ 18,289	\$ 507,870
State sources	2,557,109	1,525	-	-	2,558,634
Federal sources	62,014	42,747	-	-	104,761
Interest income	2,158	5	-	117	2,280
Miscellaneous	22,092	359	-	-	22,451
Total revenues	3,036,707	111,289	29,594	18,406	3,195,996
EXPENDITURES:					
Current:					
Regular instruction	1,619,420	-	-	-	1,619,420
Special instruction	344,563	-	-	-	344,563
Vocational education	130,878	-	-	-	130,878
Pupil services	135,654	-	-	-	135,654
General administration services	179,503	-	-	-	179,503
School administration services	147,430	-	-	-	147,430
Operation and maintenance	286,995	-	-	-	286,995
Pupil transportation	91,198	-	-	-	91,198
Student activities	150,039	-	-	-	150,039
School food services	-	108,461	-	-	108,461
Total expenditures	3,085,680	108,461	-	-	3,194,141
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(48,973)	2,828	29,594	18,406	1,855
OTHER FINANCING SOURCES (USES):					
Operating transfer in	20,942	-	-	-	20,942
Operating transfer out	-	-	-	(20,942)	(20,942)
Total other financing sources (uses)	20,942	-	-	(20,942)	-
NET CHANGE IN FUND BALANCE	(28,031)	2,828	29,594	(2,536)	1,855
FUND BALANCE, BEGINNING OF YEAR	756,840	(889)	182,791	93,212	1,031,954
FUND BALANCE, END OF YEAR	\$ 728,809	\$ 1,939	\$ 212,385	\$ 90,676	\$ 1,033,809

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	1,855
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The change in net position reported for governmental activities in the statement of activities is different because:

1) Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of an increase in taxes receivable		1,815
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2) Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Net decrease in sick and severance pay	1,155	
Net increase in pension liability	<u>(209,059)</u>	(207,904)

3) Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial assets. The effect of the current year's depreciation is to decrease net assets.		<u>(69,940)</u>
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Change in Net Position - Governmental Activities	\$	<u>(274,174)</u>
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NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2016

	<u>Agency Funds</u>
ASSETS:	
Cash and investments	\$ 85,170
Total assets	<u>\$ 85,170</u>
LIABILITIES:	
Due to groups	\$ 85,170
Total liabilities	<u>\$ 85,170</u>

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Sargent Public School District No. 3, Gwinner, North Dakota, have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the North Sargent Public School District No. 3. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the North Sargent Public School District No. 3 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on North Sargent Public School District No. 3.

Based on these criteria, there are no component units to be included within the North Sargent Public School District No. 3 as a reporting entity.

B. Basis of Presentation, Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities display information about the primary government (North Sargent Public School District No. 3). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, fees and other non-exchange transactions.

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

Fund Financial Statements - The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the district-wide statements. The School District considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

The School District reports the following major governmental funds:

1. General Fund – The general fund is the School District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. Food Service Fund – The School District accounts for its food service activity in this special revenue fund.
3. Capital Projects Funds – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the School District reports the following fund type(s):

1. Governmental Funds:
 - a) Special Reserve Funds – The School District accounts for resources restricted to, or designated for, specific purposes by the School District, in the special reserve fund.
2. Fiduciary Funds:
 - a) Agency Funds – The School District accounts for resources held for others in a custodial capacity in agency funds. The School District’s agency fund is the student activity fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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

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

D. Cash

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or more. 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 uninsured balance.

Investments consist of certificates of deposits stated at cost with maturities greater than three months.

E. Capital Assets

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

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

Asset	Useful Life
Building	50
Playground equipment	20
School buses	15
Other vehicles	15
Office equipment	5
Other equipment	10

F. Vacation Pay, Sick Pay and Severance Pay

The expenditures for vacation pay are recognized when payment is made. Employees are not allowed to carryover unused vacation days. Upon termination of employment with the School District, an employee that has a minimum of five years of service in the School District will be entitled to sick pay reimbursement at the rate of \$20 per day, for a maximum of 80 days of unused, accumulated sick leave.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net positions. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material. In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances and Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

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

Budget Stabilization Policy:

Replenishing deficiencies- when fund balance falls below the minimum 10% range, the School District will replenish shortages/deficiencies using the budget strategies and timeframes described as follows.

The following budgetary strategies shall be utilized by the School District to replenish funding deficiencies:

- The School District will reduce recurring expenditures to eliminate any structural deficit; or
- The School District will increase revenues or pursue other funding sources; or
- Some combination of the two options above

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54 requires the fund balance amounts to be properly reported within one of the fund balance categories below:

CLASSIFICATION	DEFENITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either: (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

CLASSIFICATION	DEFENITION	EXAMPLES
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constrains imposed by formal action of the government’s highest level of decision making authority, the School District Board of Directors. Formal action is required to establish, modify, or take a fund balance commitment.	By board action, construction, claims and judgements, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government’s intent to be used for specific purposes, but are under the direction of the business manager.	By business manager action, construction, claims and judgements, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance. (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Restricted Fund Balances – consist of the following items at June 30, 2016:

Building Fund – (major - restricted by enabling legislation tax levy & bond indenture) Fund used for construction of building additions and renovation projects – restricted by specified tax levy.

Special Reserve Fund – (restricted by enabling legislation-levy) Funds used for special uses as restricted by state law. In accordance with NDCC 57-19-01, the ending fund balance is limited to the amount generated by fifteen (15) mills times the taxable valuation of the School District.

Assigned Fund Balances- consist of the following item at June 30, 2016:

Food Service Fund – (major - assigned by federal and state reimbursements for free and reduced meals and grants) Restricted state and federal resources are spent first and reimbursed by each year- end. Any remaining fund balance is normally left in the food service fund at each year-end, but may be spent at the discretion of the business manager (authority given from the governing board).

Net Position:

The North Sargent School District No. 3 implemented the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2016.

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

Net Investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture capital construction requirements for capital projects and special purposes.

Unrestricted net position is primarily unrestricted amounts related to the general fund and any negative fund balances. The unrestricted net position is available to meet the district’s ongoing obligations.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from TFFR's and NDPERS' 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 term. Investments are reported at fair value.

J. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

K. Subsequent Events

Subsequent events have been evaluated through November 23, 2016, the date the financial statements were available to be issued.

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

Expenditures Over Appropriations - The School District's expenditures did not exceed appropriations in the general fund.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

At year ended June 30, 2016, the School District's carrying amount of deposits was \$987,998 and the bank balances were \$1,157,077. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk:

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

- A. Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- B. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- C. Certificates of Deposit fully insured by the federal insurance corporation.
- D. Obligations of the state.

As of June 30, 2016, the School District held \$89,864 in certificates of deposits.

Interest Rate Risk:

The School District does not have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk:

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

NOTE 4 – TAXES RECEIVABLE

The taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month. Property taxes are levied as of January 1.

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

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

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts for accrued interest and amounts on open account from other school districts and organizations for goods and services furnished by the School District. No allowance has been established for uncollectible accounts.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

NOTE 6 – DUE FROM COUNTY TREASURER

Due from county represents the amount of taxes collected prior to year-end by Sargent County that remain on hand at the county that are distributed to the school district shortly after June 30, 2016.

NOTE 7 – DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of reimbursement claims for various federal title programs. These claims are passed through the state.

NOTE 8 – INDIVIDUAL FUND INTERFUND RECEIVABLES & PAYABLE BALANCES

Such balances at June 30, 2016, were:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 3,892	\$ -
Special revenue - food service	-	3,892
	\$ 3,892	\$ 3,892

NOTE 9 – CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Governmental Activities:				
Buildings	\$ 2,423,599	\$ -	\$ -	\$ 2,423,599
Vehicles	310,226	-	-	310,226
Equipment	139,813	-	-	139,813
Total capital assets	2,873,638	-	-	2,873,638
Less accumulated depreciation:				
Buildings	1,181,425	43,272	-	1,224,697
Vehicles	171,535	17,348	-	188,883
Equipment	40,889	9,320	-	50,209
Total accumulated depreciation	1,393,849	69,940	-	1,463,789
Governmental activities capital assets, net	\$ 1,479,789	\$ (69,940)	\$ -	\$ 1,409,849

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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

Governmental Activities:

Regular instruction	\$ 27,618
Activities	27,980
Vocational	2,827
General administration	1,051
Transportation	7,549
Food Service	2,915
	<hr/>
Total Depreciation Expense - Governmental Activities	<u>\$ 69,940</u>

NOTE 10 – ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to or owed to taxing authorities at June 30, 2016 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 11 – LONG-TERM DEBT

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

Governmental Activities:

	Long-term debt payable at July 1, 2015	Debt issued	Debt Retired	Long-term debt payable at June 30, 2016	Due within one year
Sick Pay*	\$ 20,000	\$ -	\$ (1,155)	\$ 18,845	\$ -
Total	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ (1,155)</u>	<u>\$ 18,845</u>	<u>\$ -</u>

* The change in sick and severance pay is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

NOTE 12 – DEFERRED INFLOWS 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 taxes receivable \$10,449. Deferred inflows of resources on the statement of net position consist of related pension expense of \$89,647.

NOTE 13 – DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the fund financial statements consist of amounts for which liability recognition criteria have been met, but for which expense recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred outflows of resources on the statement of net position consist of related pension expense of \$649,742.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

NOTE 14 – TRANSFERS

The following is a reconciliation of transfers in and transfers out as reported in the government fund financial statements for the year ended June 30, 2016:

	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 20,942	\$ -
Special Reserve	-	(20,942)
Total	<u>\$ 20,942</u>	<u>\$ (20,942)</u>

Money was transferred from the Special Reserve Fund to the General Fund for general operations.

NOTE 15 – RISK MANAGEMENT

The School District 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 School District pays an annual premium to NDIRF for its general liability, auto and inland marine coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

The School District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$2,000,000 per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$745,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health insurance.

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

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended June 30, 2016, no claims were filed for unemployment benefits.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

NOTE 16 – PENSION PLANS

General Information about the TFFR Pension Plan

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 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 the purpose 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 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 equals 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 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 I 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.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – 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 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 has 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 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 for 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 70 ½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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

At June 30, 2016, the School District reported a liability of \$2,700,943 for its proportionate share of the net pension liability. The net pension liability was measured as of 11/23/2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At 11/23/2015 the School District's proportion was 0.20652% which was an increase of .00157% from its proportion measured as of 4/10/2015.

For the year ended June 30, 2016, the School District recognized pension expenses of \$181,779. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 17,699	\$ -
Changes in assumptions	303,270	-
Net difference between projected and actual investment earnings	-	30,457
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,634	-
Employer contributions subsequent to the measurement date	<u>193,124</u>	<u>-</u>
Total	<u>\$ 529,727</u>	<u>\$ 30,457</u>

\$193,124 reported as deferred outflows of resources related to pensions resulting from the School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30:	
2017	\$33,582
2018	33,582
2019	33,582
2020	95,039
2021	56,560
Thereafter	53,801

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 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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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

The actuarial assumptions used were based on the results of an actuarial experience study dates 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 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scales rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target 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%	0.00%

Discount Rate. The discount rate used to measure the total pension liability was 7.75% 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 8.00% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

Sensitivity of the School District’s proportionate share of the net pension liability to changes in the discount rate.

The following present the School District’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District’s Proportionate Share of the Net Pension Liability	\$3,569,424	\$2,700,943	\$1,976,648

Pension plan fiduciary net position

Detailed information is located in the North Dakota Retirement and Investments Office’s Comprehensive Annual Financial Report the for the fiscal year ended June 30, 2015. Additional financial and actuarial information is available on their website, www.nd.gov/rio, or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

General Information about the NDPERS Pension Plan

North Dakota Public Employee’s Retirement 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 provisions 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.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements -- Continued

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 member's accumulated contributions plus interest.

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and ages. Member contribution rates are 7.00% and employer contribution rates 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 25 months of service	Greater of two percent of monthly salary or \$25
26 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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

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

At June 30, 2016, the School District reported a liability of \$281,221 for its proportionate share of the net pension liability. The net pension liability was measured as of May 4, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Board's proportion of the net pension liability was based on the School Board's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the School District's proportion was 0.03989%.

For the year ended June 30, 2016, the North Sargent Public School District No. 3 recognized pension expense of \$30,237. At June 30, 2016, the School Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 8,159
Changes in assumptions	25,055	-
Net difference between projected and actual investment earnings	38,431	32,495
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,461	18,536
Employer contributions subsequent to the measurement date	<u>55,068</u>	<u>-</u>
Total	<u>\$ 120,015</u>	<u>\$ 59,190</u>

\$55,068 reported as deferred outflows of resources related to pensions resulting from School Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30:	
2017	\$(4,185)
2018	(4,185)
2019	(4,185)
2020	8,082
2021	\$(1,289)
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 expense
Cost-of-living adjustments	None

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – Continued

The actuarial assumptions used were based on the results 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.

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 scales, 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 School Board’s proportionate share of the net pension liability to changes in the discount rate

The following presents the School board’s proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the School Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
School District’s Proportionate Share of the Net Pension Liability	\$431,238	\$281,221	\$158,479

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Notes to the Financial Statements – 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. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial report for the fiscal year ended June 30, 2015. The supporting actuarial information is included in the June 30, 2015, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, www.nd.gov/ndpers, or may be obtained by contacting the agency at North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657 or by calling (701) 328-3900.

NOTE 17 - JOINT VENTURE

The School District participates in the following joint venture:

South Valley Multi-District Special Education Unit - Formed for the purpose of providing special education services to the member school districts. The members of the Co-op and their relative percentage participation in the Co-op are as follows:

The Co-op's governing board is composed of ten representatives from the member school districts, who are superintendents. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from South Valley Multi-District Special Education Unit.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	\$ 413,296	\$ 413,296	\$ 393,334	\$ (19,962)
State sources	2,621,383	2,621,383	2,557,109	(64,274)
Federal sources	62,014	62,014	62,014	-
Interest income	2,000	2,000	2,158	158
Miscellaneous	22,100	22,100	22,092	(8)
Total revenues	<u>3,120,793</u>	<u>3,120,793</u>	<u>3,036,707</u>	<u>(84,086)</u>
EXPENDITURES:				
Current:				
Regular programs	1,720,979	1,720,979	1,619,420	101,559
Special education	345,991	345,991	344,563	1,428
Vocational education	130,386	130,386	130,878	(492)
Pupil services	135,794	135,794	135,654	140
General administration services	180,153	180,153	179,503	650
School administration services	150,453	150,453	147,430	3,023
Operation and maintenance	288,424	288,424	286,995	1,429
Pupil transportation	76,933	76,933	91,198	(14,265)
Student activities	150,147	150,147	150,039	108
Total expenditures	<u>3,179,260</u>	<u>3,179,260</u>	<u>3,085,680</u>	<u>93,580</u>
DEFICIENCY OF EXPENDITURES UNDER REVENUES	(58,467)	(58,467)	(48,973)	9,494
OTHER FINANCING USES:				
Net operating transfer in	20,942	20,942	20,942	-
NET CHANGE IN FUND BALANCE	(37,525)	(37,525)	(28,031)	9,494
FUND BALANCE, BEGINNING OF YEAR	714,668	714,668	756,840	-
FUND BALANCE, END OF YEAR	<u>\$ 677,143</u>	<u>\$ 677,143</u>	<u>\$ 728,809</u>	<u>\$ 9,494</u>

Note 1 - There is not a difference between Budget and GAAP since the budget is prepared on the modified accrual basis of accounting.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

PENSION SCHEDULES
June 30, 2016

Schedule of Employer's Share of Net Pension Liability
 ND Teacher's Fund for Retirement (TFFR)
 Last 10 Fiscal Years*

District's proportion of the net pension liability (asset)	.206517%
District's proportionate share of the net pension liability (asset)	\$2,700,943
District's covered-employee payroll	\$1,270,298
District's proportionate share of the net pension liability asset) as a percentage of its covered-employee payroll	212.62%
Plan fiduciary net position as a percentage of the total pension liability	62.1%

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

Schedule of Employer Contributions
 ND Teacher's Fund for Retirement
 Last 10 Fiscal Years*

Statutorily required contribution	\$161,955
Contributions in relation to the statutorily required contribution	\$(161,955)
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll	\$1,270,298
Contributions as a percentage of covered-employee payroll	12.75%

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

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

District's proportion of the net pension liability (asset)	.041357%
District's proportionate share of the net pension liability (asset)	\$281,221
District's covered-employee payroll	\$368,437
District's proportionate share of the net pension liability asset) as a percentage of its covered-employee payroll	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.15%

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

Schedule of Employer Contributions
 ND Teacher's Fund for Retirement
 Last 10 Fiscal Years*

Statutorily required contribution	\$27,986
Contributions in relation to the statutorily required contribution	\$(26,232)
Contribution deficiency (excess)	\$1,754
Employer's covered-employee payroll	\$368,437
Contributions as a percentage of covered-employee payroll	7.60%

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

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

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

NOTE 2 – PENSIONS – CHANGES OF ASSUMPTIONS

ND Teachers' Fund for Retirement (TFFR)

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 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% 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.

ND Public Employees Retirement System (NDPERS)

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

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
 Gwinner, North Dakota
 COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2016

	Special Reserve	Total Nonmajor Governmental Funds
ASSETS:		
Cash and investments	\$ 89,864	\$ 89,864
Due from county	812	812
Taxes receivable	461	461
Total assets	\$ 91,137	\$ 91,137
LIABILITIES, DEFERRED INFLOWS OF SOURCES AND FUND BALANCES:		
LIABILITIES:		
	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES:		
Uncollected taxes receivable	461	461
Total liabilities and deferred inflows of resources	461	461
FUND BALANCE:		
Restricted:		
Special reserve	90,676	90,676
Total fund balances	90,676	90,676
Total liabilities, deferred inflows of resources and fund balances	\$ 91,137	\$ 91,137

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	Special Reserve	Total Nonmajor Governmental Funds
REVENUES:		
Local sources	\$ 18,289	\$ 18,289
Interest income	117	117
Total revenues	18,406	18,406
EXPENDITURES:		
Total expenditures	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,406	18,406
OTHER FINANCING SOURCES (USES):		
Operating transfer out	(20,942)	(20,942)
Total other financing sources (uses)	(20,942)	(20,942)
NET CHANGE IN FUND BALANCE	(2,536)	(2,536)
FUND BALANCE, BEGINNING OF YEAR	93,212	93,212
FUND BALANCE, END OF YEAR	\$ 90,676	\$ 90,676

NORTHS ARGENT PUBLIC SCHOOL DISTRICT NO. 3

Gwinner, North Dakota

STATEMENT OF RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND

For the Year Ended June 30, 2016

Account	Balance 7/1/2015	Deposits and Transfers In	Withdrawals and Transfers Out	Balance 6/30/2016
Class of 2015	\$ 498	\$ -	\$ 498	\$ -
Class of 2016	1,040	62	735	367
Class of 2017	1,897	7,202	6,087	3,012
Class of 2018	975	212	16	1,171
Class of 2019	-	4,523	3,215	1,308
Annual	2,071	2,745	3,521	1,295
Band/Music	4,464	13,786	13,760	4,490
FCCLA	2,784	2,437	2,243	2,978
Student Council	1,436	1,619	873	2,182
Student Athletics	10,917	8,114	12,667	6,364
Co-op Football	1,203	12,615	12,155	1,663
Letterman	2,760	5,355	4,597	3,518
Football Team Fund	4,102	14,419	15,500	3,021
Speech & Drama	937	6,014	5,806	1,145
Archery	4,588	24,705	23,235	6,058
Bobcat Basketball (Girls)	738	-	-	738
Bobcat Basketball (Boys)	105	-	-	105
MNS Coop Volleyball	-	6,976	6,352	624
Golf	552	8,172	6,361	2,363
Volleyball Team Fund	3,216	7,569	7,321	3,464
Track	368	4,559	3,997	930
Dollars for Staff	1,535	1,380	900	2,015
Elementary Fund	3,492	3,431	1,146	5,777
Bleacher Fundraiser	2,000	113	2,113	-
Library Fund	488	3,729	3,894	323
Science Trips	162	-	-	162
FFA	1,766	1,523	1,191	2,098
Playground Project	9,186	2,125	1,185	10,126
DC Trip	645	5,519	3,195	2,969
Pep Club	-	8,355	5,777	2,578
Activity Center	113	-	113	-
S.A.D.D.	1,220	5,085	4,279	2,026
Scholarship Funds	14	5,486	-	5,500
Satre Memorial	4,655	2	1,000	3,657
Waloch Scholarship	1,231	12	100	1,143
	<u>\$ 71,158</u>	<u>\$ 167,844</u>	<u>\$ 153,832</u>	<u>\$ 85,170</u>

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

INDEPENDENT AUDITOR'S REPORT

School Board
North Sargent Public School District No. 3
Gwinner, North Dakota

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance 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 North Sargent Public School District No. 3, Gwinner, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the North Sargent Public School District No. 3's basic financial statements, and have issued my report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered North Sargent 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Sargent Public School District No. 3's internal control. Accordingly, I do not express an opinion on the effectiveness of the School District'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 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 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.

My 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. I did identify a certain deficiency in internal control, described in the accompanying *schedule of findings and questioned costs (16.1)*, that I consider to be significant deficiency.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Report on Internal Control over Financial Reporting – Continued

Compliance and Other Matters

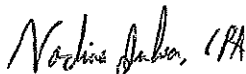
As part of obtaining reasonable assurance about whether North Sargent Public School District No. 3's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could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

North Sargent Public School District No. 3's Response to Findings

North Sargent Public School District No. 3's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. North Sargent Public School District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


NADINE JULSON, LLC
Wahpeton, North Dakota
November 23, 2016

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Gwinner, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report issued:

Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weakness identified?	_____	Yes	_____	X	No
Significant deficiencies identified not considered to be material weaknesses?	_____	X	Yes	_____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

SECTION II – FINANCIAL STATEMENT FINDINGS

16.1 LACK OF SEGREGATION OF DUTIES

Condition:

The North Sargent Public School District No. 3 has one business manager responsible for the primary accounting functions. The Administrative Assistant collects, deposits and writes a paper receipt for all monies. The business manager records the receipts.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the School District.

Effect:

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the School District’s financial condition whether due to error or fraud.

Recommendation:

I recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the greatest extent possible to reduce the potential risk of loss.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Schedule of Findings and Questioned Costs – Continued

Views of Responsible Officials:

We concur there is inadequate segregation of duties. Given the number of employees and the size of the School District, it would be difficult to further segregate duties. When possible, we will review our check process to find a better method to sign checks.

Nadine Julson, LLC
Nadine Julson, Certified Public Accountant
709 Dakota Ave
PO Box 721
Wahpeton, ND 58074
(701) 642-8146
Fax (701) 642-8165

North Sargent Public School District No. 3
Gwinner, North Dakota

I have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the North Sargent Public School District No. 3, North Dakota, as of and for the year ended June 30, 2016, which collectively comprise the North Sargent Public School District No. 3's basic financial statements and have issued my report thereon dated November 23, 2016. Professional standards require that I provide you with the following information related to my audit.

**OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS,
GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE**

As stated in my engagement letter dated July 1, 2016, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing my audit, I considered North Sargent Public School District No. 3's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether North Sargent Public School District No. 3's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of my audit. Also in accordance with the Uniform Guidance, I examined, on a test basis, evidence about North Sargent Public School District No. 3's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on North Sargent Public School District No. 3's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on North Sargent Public School District No. 3's compliance with those requirements.

**SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING
PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the North Sargent Public School District No. 3 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. I noted no transactions entered by the governmental unit during the year which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Communication Letter – Continued

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require me 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. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

I have requested certain representations from management that are included in the management representation letter dated November 23, 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 county's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

I encountered no significant difficulties in dealing with management in performing and completing my audit.

OTHER AUDIT FINDINGS OR ISSUES

I 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 my professional relationship and my responses were not a condition to my retention.

NORTH SARGENT PUBLIC SCHOOL DISTRICT NO. 3
Communication Letter – Continued

OTHER MATTERS

I applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

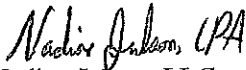
I was engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information 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 my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

I was not engaged to report on other information accompanying the financial statements, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion of provide any assurance on it.

RESTRICTION ON USE

This information is intended solely for the use of the Board of Education and management of the North Sargent Public School District No. 3 and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Thank you and the employees of North Sargent Public School District No. 3 for the courteous and friendly assistance I received during the course of my audit. It is a pleasure for me to be able to service the North Sargent Public School District No. 3.


Nadine Julson, LLC
Wahpeton, North Dakota
November 23, 2016