



Financial Statements
June 30, 2020 and 2019

Alexander Public School District No. 2

Alexander Public School District No. 2

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June 30, 2020 and 2019

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Alexander Public School District No. 2
School District Officials (Unaudited)
June 30, 2020 and 2019

2020

<u>Elected</u>	<u>Position</u>
Lashell Tjelde	President
Jeremy Heen	Vice President
Tim Nelson (Stepped down in January 2020)	Board Member
Darcy Delaney	Board Member
Cameron Wahlstrom	Board Member
Chris Link (Replaced Tim Nelson in January 2020)	Board Member
<u>Administration</u>	
Leslie Bieber	Superintendent
Shannon Faller	Principal
Aaron Allard	Assistant Principal
Barb Fixen	Business Manager

2019

<u>Elected</u>	<u>Position</u>
Jeremy Heen	President
Lashell Tjelde	Vice President
Tim Nelson	Board Member
Darcy Delaney	Board Member
Cameron Wahlstrom	Board Member
<u>Administration</u>	
Leslie Bieber	Superintendent
Shannon Faller	Principal
Aaron Allard	Assistant Principal
Barb Fixen	Business Manager



Independent Auditor's Report

To the School Board
Alexander Public School District No. 2
Alexander, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities each major fund and aggregate remaining fund information of Alexander Public School District No. 2, Alexander, ND (School District) as of and for the years ended June 30, 2020 and 2019, 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 the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Except for the matter described in the Basis for Adverse Opinion paragraph and the Disclaimer of Opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Governmental Activities

As explained in Note 1 to the financial statements, management has not recorded the activity for 2019 and 2020 capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. The modified cash basis of accounting requires that the cost of such assets be capitalized and depreciated, which would increase assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion on the Governmental Activities

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the School District, as of June 30, 2020 and 2019, or the changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting.

Basis for Disclaimer of Opinion on the Governmental Activities

The School District did not maintain adequate accounting records for its capital assets (including related depreciation) as of June 30, 2020 and 2019.

Disclaimer of Opinion on the Governmental Activities

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion on the Governmental Activities” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial position of the governmental activities of the School District as of June 30, 2020 and 2019 and the changes in financial position thereof for the years then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each major fund and aggregate remaining fund information of Alexander Public School District No. 2, Alexander, North Dakota, as of June 30, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with the basis of accounting described in Note 1 to the financial statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting used in the preparation of the financial statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School District is now preparing its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The beginning net position/fund balance has been restated as of July 1, 2018 to reflect the modified cash basis of accounting method adopted in 2019. Note 9 discusses this adjustment. Our opinions are not modified with respect to these matters.

Restatement of Fund Balance

As discussed in Note 9 to the financial statements, the School District noted an error in reconciling the bank statement in the General Fund and Capital Projects Fund in the previous year. Accordingly, an adjustment has been made to beginning fund balance as of July 1, 2018 to reflect the activity of the General Fund and Capital Projects Fund. Our opinions are not modified with respect to these matters.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alexander Public School District No. 2, Alexander, North Dakota's financial statements. The School District Officials listing and Schedule of Employer's Share of TFFR Net Pension Liability and Schedule of Employer's Contributions are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Employer's Share of TFFR Net Pension Liability and Schedule of Employer's Contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Employer's Share of TFFR Net Pension Liability and Schedule of Employer's Contributions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2021, on our consideration of Alexander Public School District No. 2, Alexander, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's 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 the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
August 6, 2021

Alexander Public School District No. 2
Statement of Net Position – Modified Cash Basis
June 30, 2020

Assets	
Cash	\$ 4,650,236
Investments	<u>250,000</u>
Current assets	4,900,236
Capital assets not being depreciated	
Construction in progress	30,330
Capital assets (net of accumulated depreciation)	
Buildings	17,926,406
Furniture and equipment	401,055
Vehicles and equipment	<u>548,234</u>
Total capital assets	<u>18,906,025</u>
Total assets	<u>23,806,261</u>
Liabilities	
Long-term liabilities	
Due within one year	
Bonds payable	362,999
Due after one year	
Bonds payable	<u>12,185,044</u>
Total liabilities	<u>12,548,043</u>
Net Position	
Net investment in capital assets	6,357,982
Restricted for debt service	751,069
Restricted for food service	32,934
Restricted for capital projects	2,047,862
Unrestricted	<u>2,068,371</u>
Total net position	<u><u>\$ 11,258,218</u></u>

Alexander Public School District No. 2
Statement of Net Position – Modified Cash Basis
June 30, 2019

Assets	
Cash	\$ 4,045,292
Investments	<u>250,000</u>
Current assets	4,295,292
Capital assets not being depreciated	
Construction in progress	30,330
Capital assets (net of accumulated depreciation)	
Buildings	17,926,406
Furniture and equipment	401,055
Vehicles and equipment	<u>548,234</u>
Total capital assets	<u>18,906,025</u>
Total assets	<u>23,201,317</u>
Liabilities	
Long-term liabilities	
Due within one year	
Bonds payable	345,508
Due after one year	
Bonds payable	<u>12,855,732</u>
Total liabilities	<u>13,201,240</u>
Net Position	
Net investment in capital assets	5,704,785
Restricted for debt service	977,232
Restricted for food service	79,543
Restricted for capital projects	1,701,818
Unrestricted	<u>1,536,699</u>
Total net position	<u><u>\$ 10,000,077</u></u>

Alexander Public School District No. 2

Statement of Activities – Modified Cash Basis

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Regular programs	\$ 2,202,148	\$ 51,728	\$ -	\$ -	\$ (2,150,420)
Special education	507,076	-	82,190	-	(424,886)
Administration	507,770	-	-	-	(507,770)
Operation and maintenance	1,149,289	-	3,446	-	(1,145,843)
Transportation services	328,482	-	120,678	-	(207,804)
Student activities	75,000	-	-	-	(75,000)
Other programs and services	235,394	-	-	-	(235,394)
Food services	217,341	75,305	41,582	-	(100,454)
Interest and fees	329,518	-	-	-	(321,040)
Total governmental activities	<u>\$ 5,552,018</u>	<u>\$ 127,033</u>	<u>\$ 247,896</u>	<u>\$ -</u>	<u>(5,168,611)</u>
General Revenues					
Property taxes					3,738,506
State aid not restricted to specific program					1,620,822
Federal aid not restricted to a specific program					880,502
Earnings on investments					8,478
Miscellaneous revenue					178,444
Total general revenues					<u>6,426,752</u>
Change in net position					1,258,141
Net position - July 1					<u>10,000,077</u>
Net position - June 30					<u>\$ 11,258,218</u>

Alexander Public School District No. 2

Statement of Activities – Modified Cash Basis

Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Regular programs	\$ 2,053,410	\$ 37,079	\$ -	\$ -	\$ (2,016,331)
Special education	289,251	-	79,793	-	(209,458)
Administration	502,252	-	-	-	(502,252)
Operation and maintenance	720,533	-	174,703	-	(545,830)
Transportation services	285,624	-	316,636	-	31,012
Other programs and services	225,607	-	-	-	(225,607)
Food services	223,441	88,365	34,168	-	(100,908)
Interest and fees	455,572	-	-	-	(448,950)
Total governmental activities	<u>\$ 4,755,690</u>	<u>\$ 125,444</u>	<u>\$ 605,300</u>	<u>\$ -</u>	<u>(4,018,324)</u>
General Revenues					
Property taxes					3,448,930
State aid not restricted to specific program					1,393,399
Federal aid not restricted to a specific program					328,578
Earnings on investments					6,622
Miscellaneous revenue					161,444
Total general revenues					<u>5,338,973</u>
Change in net position					1,320,649
Net position - July 1, as restated (Note 9)					<u>8,679,428</u>
Net position - June 30					<u>\$ 10,000,077</u>

Alexander Public School District No. 2
Balance Sheet – Governmental Funds – Modified Cash Basis
June 30, 2020

	General Fund	Special Revenue	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Assets					
Cash	\$ 1,818,371	\$ 32,934	\$ 2,047,862	\$ 751,069	\$ 4,650,236
Investments	250,000	-	-	-	250,000
Total assets	<u>\$ 2,068,371</u>	<u>\$ 32,934</u>	<u>\$ 2,047,862</u>	<u>\$ 751,069</u>	<u>\$ 4,900,236</u>
Fund Balances					
Restricted for building fund	\$ -	\$ -	\$ 2,047,862	\$ -	\$ 2,047,862
Restricted for food service	-	32,934	-	-	32,934
Restricted for debt service	-	-	-	751,069	751,069
Unassigned	2,068,371	-	-	-	2,068,371
Total fund balances	<u>2,068,371</u>	<u>32,934</u>	<u>2,047,862</u>	<u>751,069</u>	<u>4,900,236</u>
Total liabilities and fund balances	<u>\$ 2,068,371</u>	<u>\$ 32,934</u>	<u>\$ 2,047,862</u>	<u>\$ 751,069</u>	<u>\$ 4,900,236</u>

See Notes to Financial Statements

Alexander Public School District No. 2
Balance Sheet – Governmental Funds – Modified Cash Basis
June 30, 2019

	General Fund	Special Revenue	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Assets					
Cash	\$ 1,286,699	\$ 79,543	\$ 1,701,818	\$ 977,232	\$ 4,045,292
Investments	250,000	-	-	-	250,000
Total assets	<u>\$ 1,536,699</u>	<u>\$ 79,543</u>	<u>\$ 1,701,818</u>	<u>\$ 977,232</u>	<u>\$ 4,295,292</u>
Fund Balances					
Restricted for building fund	\$ -	\$ -	\$ 1,701,818	\$ -	\$ 1,701,818
Restricted for food service	-	79,543	-	-	79,543
Restricted for debt service		-	-	977,232	977,232
Unassigned	1,536,699	-	-	-	1,536,699
Total fund balances	<u>1,536,699</u>	<u>79,543</u>	<u>1,701,818</u>	<u>977,232</u>	<u>4,295,292</u>
Total liabilities and fund balances	<u>\$ 1,536,699</u>	<u>\$ 79,543</u>	<u>\$ 1,701,818</u>	<u>\$ 977,232</u>	<u>\$ 4,295,292</u>

See Notes to Financial Statements

Alexander Public School District No. 2

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis June 30, 2020

Total fund balances for governmental funds	\$ 4,900,236
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Total net position reported for government activities in the statement of net position is different because

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds

Cost of capital assets	\$ 20,619,517
Less accumulated depreciation	<u>(1,713,492)</u>

Net capital assets	18,906,025
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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 position. Balances at June 30, 2019 are:

Bonds payable	(12,548,043)
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Total long-term liabilities	<u>(12,548,043)</u>
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Total net position of governmental activities	<u><u>\$ 11,258,218</u></u>
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Alexander Public School District No. 2

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis

June 30, 2019

Total fund balances for governmental funds	\$ 4,295,292
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Total net position reported for government activities in the statement of net position is different because

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds

Cost of capital assets	\$ 20,619,517
Less accumulated depreciation	<u>(1,713,492)</u>

Net capital assets	18,906,025
--------------------	------------

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 position. Balances at June 30, 2019 are:

Bonds payable	(13,201,240)
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Total long-term liabilities	<u>(13,201,240)</u>
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Alexander Public School District No. 2

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash Basis Year Ended June 30, 2020

	General Fund	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Revenues					
Local sources	\$2,705,095	\$ 81,312	\$ 723,591	\$ 754,702	\$4,264,700
State sources	1,796,206	1,151	-	1,852	1,799,209
Federal sources	696,192	41,582	-	-	737,774
Total revenues	5,197,493	124,045	723,591	756,554	6,801,683
Expenditures					
Current					
Regular programs	2,193,670	-	-	-	2,193,670
Special Education	507,076	-	-	-	507,076
Administration services	507,770	-	-	-	507,770
Operations and maintenance	378,003	-	-	-	378,003
Transportation services	328,482	-	-	-	328,482
Student activities	75,000	-	-	-	75,000
Other programs and services	235,394	-	-	-	235,394
Food services	46,687	170,654	-	-	217,341
Capital outlay	-	-	771,286	-	771,286
Debt service					
Principal	-	-	-	653,199	653,199
Interest	-	-	-	328,948	328,948
Fees	-	-	-	570	570
Total expenditures	4,272,082	170,654	771,286	982,717	6,196,739
Excess of Revenues over Expenditures	925,411	(46,609)	(47,695)	(226,163)	604,944
Other Financing Sources (Uses)					
Transfers In	-	-	393,739	-	393,739
Transfers Out	(393,739)	-	-	-	(393,739)
Total other financing sources and (uses)	(393,739)	-	393,739	-	-
Net change in fund balances	531,672	(46,609)	346,044	(226,163)	604,944
Fund Balance - July 1	1,536,699	79,543	1,701,818	977,232	4,295,292
Fund Balance - June 30	\$2,068,371	\$ 32,934	\$2,047,862	\$ 751,069	\$4,900,236

Alexander Public School District No. 2

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Modified Cash Basis Year Ended June 30, 2019

	General Fund	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Revenues					
Local sources	\$2,548,130	\$ 88,365	\$ 522,244	\$ 583,701	\$3,742,440
State sources	1,881,994	-	-	2,744	1,884,738
Federal sources	398,792	41,711	2,036	-	442,539
Total revenues	4,828,916	130,076	524,280	586,445	6,069,717
Expenditures					
Current					
Regular programs	2,046,788	-	-	-	2,046,788
Special Education	289,251	-	-	-	289,251
Administration services	502,252	-	-	-	502,252
Operations and maintenance	356,972	-	-	-	356,972
Transportation services	285,624	-	-	-	285,624
Other programs and services	225,607	-	-	-	225,607
Food services	114,798	108,643	-	-	223,441
Capital outlay	-	-	363,561	-	363,561
Debt service					
Principal	-	-	-	1,125,887	1,125,887
Interest	-	-	-	455,031	455,031
Fees	-	-	-	541	541
Total expenditures	3,821,292	108,643	363,561	1,581,459	5,874,955
Excess of Revenues over Expenditures	1,007,624	21,433	160,719	(995,014)	194,762
Other Financing Sources (Uses)					
Transfers In	-	-	930,000	-	930,000
Transfers Out	(930,000)	-	-	-	(930,000)
Total other financing sources and (uses)	(930,000)	-	930,000	-	-
Net change in fund balances	77,624	21,433	1,090,719	(995,014)	194,762
Fund Balance - July 1, as previously reported	1,622,068	58,110	518,812	2,108,471	4,307,461
Restatement (Note 9)	(162,993)	-	92,287	(136,225)	(206,931)
Fund Balance - July 1, as restated	1,459,075	58,110	611,099	1,972,246	4,100,530
Fund Balance - June 30	\$1,536,699	\$ 79,543	\$1,701,818	\$ 977,232	\$4,295,292

Alexander Public School District No. 2

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to
the Statement of Activities – Modified Cash Basis
Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 604,944
The change in net position reported for governmental activities in the statement of activities is different because:	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Principal payments	<u>653,197</u>
Change in net position of governmental activities	<u><u>\$ 1,258,141</u></u>

Alexander Public School District No. 2

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to
the Statement of Activities – Modified Cash Basis
Year Ended June 30, 2019

Net change in fund balances - total governmental funds	\$ 194,762
The change in net position reported for governmental activities in the statement of activities is different because:	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments	<u>1,125,887</u>
Change in net position of governmental activities	<u>\$ 1,320,649</u>

Alexander Public School District No. 2
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund – Modified Cash Basis
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and investments	<u>\$ 171,734</u>	<u>\$ 74,358</u>
Liabilities		
Due to student activity groups	<u>\$ 171,734</u>	<u>\$ 74,358</u>

Note 1 - Summary of Significant Accounting Policies

The financial statements of Alexander Public School District No. 2, Alexander, North Dakota (School District), have been prepared in conformity with the modified cash basis of accounting. 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.

Reporting Entity

The accompanying financial statements present the activities of Alexander Public School District No. 2. 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 is such that exclusion would cause the school district's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Alexander Public School District No. 2 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 Alexander Public School District No. 2.

Based on these criteria, there are no component units to be included with Alexander Public School District No. 2 as a reporting entity.

Government-wide and Fund Financial Statements

Government-wide Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities normally are supported by taxes and intergovernmental revenues. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The School District has a departure from generally accepted accounting principles for not recording capital asset activity and related depreciation within the government-wide financial statements for the years ended June 30, 2020 and 2019.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements – The fund financial statements provide information about the School’s funds including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements.

Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, accrued liabilities, deferred inflows of resources, and deferred outflows of resources are not included in the financial statements. Only investments, capital assets, and long-term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund – This is the school district’s hot lunch operating fund. It accounts for all financial resources related to food service.

Capital Projects Fund – This is the school district’s financial resources fund. It accounts for the acquisition, construction, maintenance, and insurance of major facilities.

Debt Service Fund – The debt service fund is used to account for financial resources to be used for the repayment of principal and interest on long-term debt.

The school district does not have any nonmajor governmental funds.

The school district reports the following fiduciary fund:

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

The school district follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for all governmental entities. For the government-wide financial statements, the school district follows all applicable GASB pronouncements to the extent they are applicable to the modified cash basis of accounting.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Net Position Classifications

Government-wide Statements

Net position and is displayed in three components:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Fund Balance Classification Policies and Procedures

The school district classifies governmental fund balances as follows:

- Non-spendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which is the School Board, through ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. Fund balance may be assigned by the Business Manager.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The School District uses restricted amounts first when both restricted and unrestricted fund balance is available and then from less-restrictive classifications unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. The School District has not established a policy for its use of unrestricted fund balance amounts. As such, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Cash and Investments

Cash include amounts in demand deposits and money market accounts. These amounts must be deposited with the Bank of North Dakota or in a financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the school district to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured 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 of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or by the state.
- d) Obligations of the state.

Investments during the years ended June 30, 2020 and 2019, respectively consisted of certificates of deposit at cost.

Capital Assets

Capital assets include plant and equipment and are reported in the governmental activities' column in the government-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:

Buildings and Improvements	50 years
Vehicles and equipment	10 years

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums or discounts and bond issuance costs are recorded as expenditures when paid.

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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.

In the government-wide financial statements, interfund transactions have been eliminated.

Tax Revenues

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the North Dakota Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension footnote, Note 6, is shown as additional information to the users of the financial statements.

Accounting Policy Adoption

The School District adopted the provisions of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB-95). The primary objective of this statement is to provide temporary relief from certain new accounting and financial reporting requirements to governments in light of the coronavirus pandemic by postponing the effective dates of certain statements and implementation guides by one year. The School District has elected to delay implementation of GASB Statement No. 84, *Fiduciary Activities* to its calendar year beginning July 1, 2020. The effect of the delay on the School District's financial statements for the year ended June 30, 2020 was not significant.

Note 2 - Cash and Investments

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

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

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. At June 30, 2020 and 2019, the school district's carrying amount of deposits was \$4,821,968 and 4,119,648, respectively and the bank balance was \$5,292,812 and \$4,153,993, respectively. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name. At June 30, 2020 and 2019, the school district's carrying balance and bank balance of certificates of deposit was \$250,000 and \$250,000, respectively. The entire balance was covered by Federal Depository Insurance.

Interest Rate Risk

The School District does not have a formal investment policy that limits investments as a means of managing its exposure to fair value losses arising from changing interest rates.

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 deposit insurance corporation.
- d) Obligations of the state.

Concentration of Credit Risk

The school district does not have a limit on the amount the district may invest in any one issuer.

Note 3 - Capital Assets

Capital asset activity was not recorded for the year ended June 30, 2020:

<u>Governmental Activities</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	30,330	-	-	30,330
Total capital assets, not being depreciated	30,330	-	-	30,330
Capital assets, being depreciated				
Buildings	18,932,263	-	-	18,932,263
Furniture and equipment	551,521	-	-	551,521
Vehicles and equipment	1,105,403	-	-	1,105,403
Total capital assets, being depreciated	20,589,187	-	-	20,589,187
Less accumulated depreciation for				
Buildings	1,005,857	-	-	1,005,857
Furniture and equipment	150,466	-	-	150,466
Vehicles and equipment	557,169	-	-	557,169
Total accumulated depreciation	1,713,492	-	-	1,713,492
Capital assets being depreciated, net	18,875,695	-	-	18,875,695
Governmental activities capital assets, net	<u>\$ 18,906,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,906,025</u>

Alexander Public School District No. 2

Notes to Financial Statements

June 30, 2020 and 2019

Capital asset activity was not recorded for the year ended June 30, 2019:

<u>Governmental Activities</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	30,330	-	-	30,330
Total capital assets, not being depreciated	30,330	-	-	30,330
Capital assets, being depreciated				
Buildings	18,932,263	-	-	18,932,263
Furniture and equipment	551,521	-	-	551,521
Vehicles and equipment	1,105,403	-	-	1,105,403
Total capital assets, being depreciated	20,589,187	-	-	20,589,187
Less accumulated depreciation for				
Buildings	1,005,857	-	-	1,005,857
Furniture and equipment	150,466	-	-	150,466
Vehicles and equipment	557,169	-	-	557,169
Total accumulated depreciation	1,713,492	-	-	1,713,492
Capital assets being depreciated, net	18,875,695	-	-	18,875,695
Governmental activities capital assets, net	<u>\$ 18,906,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,906,025</u>

Note 4 - Long-Term Liabilities

Changes in Long-Term Liabilities

The following is a summary of long-term liability activity for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Bonds payable	<u>\$ 13,201,240</u>	<u>\$ -</u>	<u>\$ (653,197)</u>	<u>\$ 12,548,043</u>	<u>\$ 362,999</u>
Total	<u>\$ 13,201,240</u>	<u>\$ -</u>	<u>\$ (653,197)</u>	<u>\$ 12,548,043</u>	<u>\$ 362,999</u>

Alexander Public School District No. 2

Notes to Financial Statements

June 30, 2020 and 2019

Outstanding debt at June 30, 2020 consisted of the following issues:

\$7,100,000 General Obligation School Building Bond, Series 2015 due in annual payments ranging from \$290,000 to \$480,000 including interest payments at 3% to 3.75% per annum.	\$ 5,515,000
\$10,000,000 General Obligation School Building Bond, Series 2015B due in semi-annual payments of \$392,376.13 including interest at 5% with an interest buy-down to the rate of 2%	<u>7,033,043</u>
	<u><u>\$ 12,548,043</u></u>

The following is a summary of long-term liability activity for the year ended June 30, 2019:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Due Within One Year
Bonds payable	\$ 14,327,129	\$ -	\$ (1,125,889)	\$ 13,201,240	\$ 345,508
Total	<u>\$ 14,327,129</u>	<u>\$ -</u>	<u>\$ (1,125,889)</u>	<u>\$ 13,201,240</u>	<u>\$ 345,508</u>

Outstanding debt at June 30, 2019 consisted of the following issues:

\$7,100,000 General Obligation School Building Bond, Series 2015 due in annual payments ranging from \$290,000 to \$480,000 including interest payments at 3% to 3.75% per annum.	\$ 5,845,000
\$10,000,000 General Obligation School Building Bond, Series 2015B due in semi-annual payments of \$392,376.13 including interest at 5% with an interest buy-down to the rate of 2%	<u>7,356,240</u>
	<u><u>\$ 13,201,240</u></u>

The Series 2015 bonds were issued for the purposes of providing funds for constructing, remodeling, improving and equipping school buildings. The bonds are dated July 1, 2015, with interest ranging from 3% to 3.75% per annum. The bonds are payable through August 1, 2034. The Series 2015 bonds are obligations of the School District payable from the proceeds of the School District's tax levy. The debt service fund was used to make the debt service payments on the bonds in the current year and will be used to make the debt service payments in future years.

The Series 2015B bonds were issued for the purposes of providing funds for constructing, remodeling, improving and equipping school buildings. The bonds are dated March 1, 2016, with an interest of 2% per annum. The bonds are payable through July 1, 2025. The Series 2015B bonds are obligations of the School District payable from the proceeds of the School District's tax levy. The debt service fund was used to make the debt service payments on the bonds in the current year and will be used to make the debt service payments in future years.

Alexander Public School District No. 2

Notes to Financial Statements

June 30, 2020 and 2019

Debt service requirements on long-term debt at June 30, 2020 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 345,508	\$ 173,726
2021	692,999	348,805
2022	716,376	311,404
2023	740,683	313,281
2024	765,968	295,017
Thereafter	9,939,706	2,308,742
	<u>\$ 13,201,240</u>	<u>\$ 3,750,975</u>

The school district participated in the Bank of North Dakota (BND) Interest Buydown program. Under this program BND paid \$218,717 and 239,359 for the year ending June 30, 2020 and 2019, respectively in order to buydown the school's interest rate on the \$10,000,000 General Obligation Building Bonds described approximately 3%. These amounts were recorded as a reduction to interest expense.

Note 5 - Risk Management

Alexander Public School District No. 2 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. Alexander School District pays an annual premium to NDIRF for its general liability, automobile insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile.

The school district also participates in the North Dakota State Fire and Tornado fund for public assets, buildings and property damage. The limit of coverage for this policy differs by the value for each asset.

The school district also participates in the State Bonding Fund. The State Bonding Fund currently provides the school district with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Note 6 - Pension Plans**A. Plan Descriptions**

The School District participates in the following defined benefit pension plans:

North Dakota Teachers' Fund for Retirement (TFFR)

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

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

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

B. Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-Grandfathered

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

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

Tier 2

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

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

C. Death and Disability Benefits

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

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

D. Refunds of Member Account Balance

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

E. 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.

F. Net Pension Liability

At June 30, 2020 and 2019, the School District's proportionate share of the net pension liability is \$2,789,627 and \$2,406,712. The net pension liability was measured as of June 30, 2019 and 2018, 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 employers. At June 30, 2019, the School District's proportion was 0.20255003 percent which was an increase of 0.02198228 percent from its proportion measured as of June 30, 2018. At June 30, 2018, the School District's proportion was 0.18056775 percent which was an increase of 0.000250375 percent from its proportion measured as of June 30, 2017.

G. Actuarial Assumptions

The total pension liability in the July 1, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2019, funding actuarial valuation for TFFR.

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

- Investment return assumption lowered from 8% to 8.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

June 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58.0%	6.90%
Global Fixed Income	23.0%	2.10%
Global Real Assets	18.0%	5.40%
Cash Equivalents	1.0%	0.00%

June 30, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58.0%	6.70%
Global Fixed Income	23.0%	1.50%
Global Real Assets	18.0%	5.10%
Cash Equivalents	1.0%	0.00%

H. Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2019 and 2018. 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, 2019 and 2018, 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 July 1, 2019 and 2018. 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 July 1, 2019 and 2018.

H. Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.75% at July 1, 2019 and 2018, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

June 30, 2020

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the TFFR net pension liability	\$ 3,767,419	\$ 2,789,627	\$ 1,977,056

June 30, 2019

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the TFFR net pension liability	\$ 3,249,758	\$ 2,406,712	\$ 1,705,560

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

Note 7 - Transfers

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2020:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Year Ending June 30, 2020</u>		
General fund	\$ -	\$ 393,739
Capital project fund	<u>393,739</u>	<u>-</u>
	<u>\$ 393,739</u>	<u>\$ 393,739</u>

The following is a reconciliation between transfers in and transfers out as reported in the financial statements for the year ended June 30, 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Year Ending June 30, 2019</u>		
General fund	\$ -	\$ 930,000
Capital project fund	<u>930,000</u>	<u>-</u>
	<u>\$ 930,000</u>	<u>\$ 930,000</u>

The transfers were made to move funds to the capital project fund for the construction of a school expansion.

Note 8 - Expenditures over Appropriations

Expenditures exceeded budget in the General Fund by \$150,696 in 2019. The deficit was funded through excess fund balance reserves. No remedial action is required.

Note 9 - Restatement

The school district restated prior financial statements to switch from the generally accepted method of accounting to the modified cash basis of accounting. This change in reporting led to the removal of receivables, payables, accrued liabilities, deferred inflows of resources and deferred outflows of resources. The school district also noted an error in reconciling the bank statement in the previous years. The previous year's financial statements presented a separate governmental fund, Special Reserve. The activity of this fund is now presented within the general fund. The results of these adjustments are as follows:

	General Fund	Special Revenue	Capital Projects	Debt Service	Government -wide
Fund balance/net position - July 1, as previously reported	\$ 1,622,068	\$ 58,110	\$ 518,812	\$ 2,108,471	\$ 7,169,045
Restatement due to an error in cash reconciling items	38,229		(17,075)		21,154
Restatement due to change in accounting methods to modified cash basis of accounting	(201,222)	-	109,362	(136,225)	1,489,229
Fund balance/net position - July 1, as restated	<u>\$ 1,459,075</u>	<u>\$ 58,110</u>	<u>\$ 611,099</u>	<u>\$ 1,972,246</u>	<u>\$ 8,679,428</u>

Note 10 - Subsequent Events

Subsequent to year-end, the School District had a defeasance of the \$7,100,000 General Obligation School Building Bond, Series 2015 with General Obligation School Building Refunding Bonds, Taxable Series 2021 with a par amount refunded of \$5,515,000.



Supplementary Information
June 30, 2020 and 2019

Alexander Public School District No. 2

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

	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.202550%	0.180568%	0.178064%	0.180823%	0.153171%	0.143245%
Employer's proportionate share of the net pension liability	\$2,789,627	\$2,406,712	\$2,445,756	\$2,649,158	\$2,003,255	\$1,500,954
Employer's covered payroll	1,420,946	1,227,517	1,201,881	1,174,850	942,165	830,899
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	196.32%	196.06%	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	65.50%	65.50%	63.20%	59.20%	62.10%	66.60%

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

* Amounts presented for each fiscal year have a measurement date as of June 30, 2020 and 2019.

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

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 193,331	\$ 156,509	\$ 153,240	\$ 149,793	\$ 120,120	\$ 89,321
Contributions in relation to the statutorily required contribution	(193,331)	(156,509)	(153,240)	(149,793)	(120,120)	(89,321)
Contribution deficiency (excess)	-	-	-	-	-	-
District's covered payroll	1,420,946	1,227,517	1,201,881	1,174,850	942,165	830,899
Contributions as a percentage of covered employee payroll	13.61%	12.75%	12.75%	12.75%	12.75%	10.75%

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

* Amounts presented for each fiscal year have a measurement date as of June 30, 2020 and 2019.

**Notes to Supplementary Information
for the Year Ended June 30, 2020 and 2019**

Changes of Assumptions

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

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



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the School Board
Alexander Public School District No. 2
Alexander, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, each major fund and aggregate remaining fund information of Alexander Public School District No. 2 as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Alexander Public School District No. 2's basic financial statements, and have issued our report thereon dated August 6, 2021.

In our report we issued an unmodified opinion on the major governmental funds and the aggregate remaining fund and a disclaimer of opinion and adverse opinion on the governmental activities.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alexander Public School District No. 2's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alexander Public School District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Alexander Public School District No. 2's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-003, 2020-004, and 2020-005 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alexander Public School District No. 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2020-006 and 2020-007.

Responses to Findings

Alexander Public School District No. 2's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Alexander Public School District No. 2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
August 6, 2021

2020-001 Preparation of Financial Statements
Material Weakness

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria – Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Cause – The District does not have staff trained in all modified cash basis of accounting reporting standards.

Effect – The control deficiency could result in a misstatement to the presentation of the financial statements.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of responsible officials – No action is planned on the finding. The School District will continue to have the auditors prepare the financial statements; however, the School District has established an internal control policy to document the annual review of the financial statements by the School Board and management.

2020-002 Recording of Transactions and Audit Adjustments
Material Weakness

Condition – We identified misstatements in the District’s financial statements causing us to propose material audit adjustments.

Criteria - A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause – The District has a lack of internal controls over the recording of certain transactions.

Effect - Inadequate internal controls over recording of transactions affects the District’s ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation – We recommend that all general ledger accounts are reconciled in a timely manner and adjustments made for any differences noted.

View of responsible officials – The School District will review the prior year journal entries to determine training needs with the intent to reduce the overall frequency or number of adjusting journal entries.

2020-003 Segregation of Duties
Material Weakness

Condition - The District has a lack of segregation of duties in certain areas due to a limited staff.

Criteria - A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause – The District has limited staff to be able to adequately segregate duties.

Effect - Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that could be material in relation to the financial statements and increase the risk of potential misappropriation of assets.

Recommendation – We recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control. All accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

View of responsible officials – The School District feels that the costs for hiring additional staff would not be significantly beneficial. The School District will continue to look for further opportunities to segregate duties.

2020-004 Lack of Review Processes
Material Weakness

Condition - The District does not reconcile debt and capital asset activity. The District does not have a review process over reconciliation of cash, revenue and expenditure accounts. The District does not have a review process over manual journal entries.

Criteria - A good system of internal accounting control contemplates an adequate review process over all account reconciliations and transactions being processed.

Cause – The District has limited staff to be able to adequately perform review processes over account reconciliations and transactions being processed.

Effect – Lack of review processes could adversely affect the District's ability to detect misstatements in amounts that could be material in relation to the financial statements and increase the risk of potential misappropriation of assets.

Recommendation –All accounting functions include formal review and approval processes.

View of responsible officials – The School District feels that the costs for hiring additional staff would not be significantly beneficial. The School District will continue to look for further opportunities to implement review and approval processes.

2020-005 Inadequate Supporting Documentation for Capital Assets and Departure from Generally Accepted Accounting Principles
Material Weakness

Condition – During the course of our engagement, we noted there was inadequate supporting documentation for capital assets and related depreciation. We were unable to obtain detailed listings of the balances, there was no activity presented for capital assets and related depreciation from the previous year, and no other supporting documentation was made available.

Criteria – A good system of internal accounting control contemplates an adequate system for maintaining supporting documentation to support capital asset and related depreciation account balances. This results in a misstatement of the financial statements and departure from generally accepted accounting principles. Proper documentation should be maintained to support all account balances and transactions.

Cause – The District does not have an internal control system designed to maintain adequate supporting documentation to support capital asset balances.

Effect – This control deficiency results in a material misstatement to the financial statements and departure from generally accepted accounting principles.

Recommendation – The District should maintain adequate supporting documentation to support capital asset account balances and related depreciation.

View of responsible officials – The School District agrees with the finding. The School District will attempt to remedy this finding in the next fiscal year.

State Compliance Item

2020-006 Uncashed Checks

Condition - The District has failed to remit uncashed checks greater than two years from the date of issuance to the administrator of the state treasury.

Criteria – According to North Dakota Century Code 47-30.1-02.1(1), any checks held, issued or owing in the ordinary course of business which remain uncashed by the owner for more than two years after becoming payable are presumed abandoned. These uncashed checks should be remitted to the administrator of the state treasury.

Cause – The District has not fully implemented the policy of remitting uncashed checks greater than two years outstanding from the issuance date.

Effect – The District is not in compliance with North Dakota Century Code 47-30.1-02.1(1), stating that any checks held, issued, or owing in the ordinary course of business which remain uncashed by the owner for more than two years after becoming payable are abandoned and should be remitted to the administrator of the state treasury.

Recommendation – The District should continually be aware of the North Dakota Century Code requirements.

View of responsible officials – The School District agrees with the finding. The School District will focus on remitting uncashed checks greater than two years outstanding from their issuance date to the administrator of the treasury.

Compliance Item for Continuing Disclosure

2020-007 Failure to Provide Continuing Disclosure

Condition - The District did not complete the required continuing disclosures within 12 months of each of its year-ends which was by June 30, 2021 for the year ended June 30, 2020 and by June 30, 2020 for the year ended June 30, 2019.

Criteria – The District’s General Obligation School Building Bond, Series 2015 includes continuing disclosure requirements that the District is required to submit to comply with SEC rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934.

Cause – The District was aware of the continuing disclosure requirements but the audit report for the years ended June 30, 2020 and 2019 was not finalized until August 2021.

Effect – The failure to comply with the continuing disclosure requirements do not constitute an event of default on the bond, but the bond holders will have any available remedy at law or in equity and the failure to provide the continuing disclosures must be reported and may adversely affect the transferability and liquidity of the bond and its market price.

Recommendation – We recommend that the District continue providing the completed audit reports immediately after they are finalized.

View of responsible officials – The School District agrees with the finding. The School District will have its audit completed in future years to meet the continuing disclosure requirements.