



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Beulah Public School District

Beulah, North Dakota

Audit Report for the Year Ended June 30, 2019

*Client Code: PS29310*



Photo credit: North Dakota Tourism



Office of the  
State Auditor

# BEULAH PUBLIC SCHOOL DISTRICT

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For the Year Ended June 30, 2019

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# **BEULAH PUBLIC SCHOOL DISTRICT**

School Officials and Audit Personnel

June 30, 2019

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## **SCHOOL BOARD**

Doug Moore	Chair
Jennifer Steffan	Vice-Chair
Dwight Hatzenbuehler	Director
Kory Moore	Director
Dave Ripplinger	Director
Blake Seibel	Director
Dan Ziman	Director

## **SCHOOL OFFICIALS**

Travis Jordan	Superintendent
Krista Richau	Business Manager

## **AUDIT PERSONNEL**

Heath Erickson, CPA	Audit Manager
Michael Scherr	Audit In-Charge

STATE AUDITOR  
Joshua C. Gallion



PHONE  
701-328-2241

FAX  
701-328-2345

[www.nd.gov/auditor](http://www.nd.gov/auditor)

STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. Boulevard Ave, Dept. 117  
Bismarck, North Dakota, 58505

[ndsao@nd.gov](mailto:ndsao@nd.gov)

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## INDEPENDENT AUDITOR'S REPORT

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School Board of Directors  
Beulah Public School District  
Beulah, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beulah Public School District, Beulah, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Beulah Public 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 statements 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Beulah Public School District, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with the modified cash 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. Beulah Public School District prepares its financial statements 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 this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beulah Public School District's basic financial statements. *The budgetary comparison schedule* is presented for purposes of additional analysis and are not a required part of the financial statements.

The *budgetary comparison schedule* is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1 to the financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2020 on our consideration of the Beulah Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beulah Public School District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
April 7, 2020

**BEULAH PUBLIC SCHOOL DISTRICT**  
Statement of Net Position – Modified Cash Basis  
June 30, 2019

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash, Cash Equivalents, and Investments	\$ 3,832,144
Capital Assets	
Nondepreciable	-
Depreciable, Net	<u>5,169,528</u>
Total Assets	<u>\$ 9,001,672</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 5,169,528
Restricted	
Capital Projects	1,261,115
Food Service	138,262
Unrestricted	<u>2,432,767</u>
Total Net Position	<u><u>\$ 9,001,672</u></u>

The notes to the financial statements are an integral part of this statement.

**BEULAH PUBLIC SCHOOL DISTRICT**

Statement of Activities – Modified Cash Basis

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities</b>				<b>Governmental Activities</b>
Regular Instruction	\$ 4,006,171	\$ -	\$ 174,650	\$ (3,831,521)
Special Education	207,691	-	-	(207,691)
Vocational Education	361,313	-	72,827	(288,486)
Federal Programs	189,945	-	-	(189,945)
District Wide Services	549,627	-	-	(549,627)
Administration	884,402	-	-	(884,402)
School Food Services	432,418	301,955	124,631	(5,832)
Operations and Maintenance	1,258,095	-	-	(1,258,095)
Transportation	677,580	-	49,694	(627,886)
Co-curricular Activities	373,668	-	-	(373,668)
Total Governmental Activities	<u>\$ 8,940,910</u>	<u>\$ 301,955</u>	<u>\$ 421,802</u>	<u>\$ (8,217,153)</u>
<b>General Revenues</b>				
Property Taxes				\$ 2,342,740
Unrestricted State Grants				5,465,814
Unrestricted Interest Earnings				21,772
Miscellaneous Revenue				77,212
Unrealized Gain on Investments				30,988
Total General Revenues				<u>\$ 7,938,526</u>
Changes in Net Position				<u>\$ (278,627)</u>
Net Position - July 1				<u>\$ 9,348,776</u>
Prior Period Adjustment				<u>(68,477)</u>
Net Position - July 1, as restated				<u>\$ 9,280,299</u>
Net Position - June 30				<u><u>\$ 9,001,672</u></u>

The notes to the financial statements are an integral part of this statement.

**BEULAH PUBLIC SCHOOL DISTRICT**

Balance Sheet – Governmental Funds – Modified Cash Basis

June 30, 2019

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	General Fund	Building Fund	Hot Lunch Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash, Cash Equivalents, and Investments	<u>\$ 2,432,767</u>	<u>\$ 1,261,115</u>	<u>\$ 138,262</u>	<u>\$ 3,832,144</u>
<b>FUND BALANCES</b>				
Restricted				
Capital Projects	\$ -	\$ 1,261,115	\$ -	\$ 1,261,115
Assigned				
Food Service	-	-	138,262	138,262
Unassigned	<u>2,432,767</u>	<u>-</u>	<u>-</u>	<u>2,432,767</u>
Total Fund Balances	<u>\$ 2,432,767</u>	<u>\$ 1,261,115</u>	<u>\$ 138,262</u>	<u>\$ 3,832,144</u>

The notes to the financial statements are an integral part of this statement.



## BEULAH PUBLIC SCHOOL DISTRICT

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis  
June 30, 2019

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<b>Total Fund Balances for Governmental Funds</b>	\$ 3,832,144
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	<u>5,169,528</u>
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<b>Total Net Position of Governmental Activities</b>	<u><u>\$ 9,001,672</u></u>
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The notes to the financial statements are an integral part of this statement.

**BEULAH PUBLIC SCHOOL DISTRICT**

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

	General Fund	Building Fund	Hot Lunch Fund	Total Governmental Funds
<b>REVENUES</b>				
Local Sources	\$ 3,003,393	\$ 547,536	\$ 330,995	\$ 3,881,924
State Sources	4,399,327	-	-	4,399,327
Federal Sources	174,650	-	124,630	299,280
Other Sources	49,081	1,684	-	50,765
Total Revenues	\$ 7,626,451	\$ 549,220	\$ 455,625	\$ 8,631,296
<b>EXPENDITURES</b>				
Current				
Regular Instruction	\$ 4,001,999	\$ -	\$ -	\$ 4,001,999
Special Education	207,691	-	-	207,691
Vocational Education	361,313	-	-	361,313
Federal Programs	189,945	-	-	189,945
District Wide Services	549,627	-	-	549,627
Administration	884,402	-	-	884,402
School Food Services	-	-	428,428	428,428
Operations and Maintenance of Plant	870,186	434,059	-	1,304,245
Transportation	590,883	-	-	590,883
Co-curricular Activities	353,267	-	-	353,267
Total Expenditures	\$ 8,009,313	\$ 434,059	\$ 428,428	\$ 8,871,800
Excess (Deficiency) of Revenues Over Expenditures	\$ (382,862)	\$ 115,161	\$ 27,197	\$ (240,504)
<b>OTHER FINANCING SOURCES (USES)</b>				
Change in investment market value	\$ 30,988	\$ -	\$ -	\$ 30,988
Net Change in Fund Balances	\$ (351,874)	\$ 115,161	\$ 27,197	\$ (209,516)
Fund Balances - July 1	\$ 2,853,118	\$ 1,145,954	\$ 111,065	\$ 4,110,137
Prior Period Adjustment	\$ (68,477)	\$ -	\$ -	\$ (68,477)
Fund Balances - July 1 Restated	\$ 2,784,641	\$ 1,145,954	\$ 111,065	\$ 4,041,660
Fund Balances - June 30	\$ 2,432,767	\$ 1,261,115	\$ 138,262	\$ 3,832,144

The notes to the financial statements are an integral part of this statement.

## BEULAH PUBLIC SCHOOL DISTRICT

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

For the Year Ended June 30, 2019

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (209,516)</b>
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	\$ 289,206	
Current Year Depreciation Expense	<u>(358,317)</u>	<u>(69,111)</u>

<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(278,627)</u></b>
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The notes to the financial statements are an integral part of this statement.

**BEULAH PUBLIC SCHOOL DISTRICT**

Statement of Fiduciary Assets and Liabilities - Agency Funds – Modified Cash Basis

June 30, 2019

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	Agency Funds
<b>ASSETS</b>	
Cash	<u>\$ 224,647</u>
<b>LIABILITIES</b>	
Due to Student Activities Groups	<u>\$ 224,647</u>

The notes to the financial statements are an integral part of this statement.

# BEULAH PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2019

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Beulah Public School District ("School District") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 the School District. The School District has considered all potential component units for which it 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. 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 the School District 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 the School District.

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

### Basis of Presentation, Basis of Accounting

*Government-wide statements:* The statement of net position and the statement of activities display information about the School District and the blended component unit. 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, 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, interest, and non-restricted grants and contributions, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the School District's funds including its fiduciary funds and blended component unit. 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.

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.

*Building Fund.* This fund accounts for the acquisition and construction of the School District's capital facilities.

*Hot Lunch Fund.* This fund accounts for the activity and financial resources that support the School District's hot lunch and breakfast programs.

The School District reports the following fund type:

*Agency Funds.* These funds accounts for assets by the School District in a custodial capacity as an agent on behalf of others. The agency fund accounts for the financial transactions related to the student activity program.

## BEULAH PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements – Continued

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#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-wide Financial Statements.* The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Only current financial assets are generally included on their balance sheet. The Statements of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

*Fiduciary Funds Financial Statement.* The fiduciary fund financial statement is reported using the economic resources measurement focus, as applied to the modified cash basis of accounting.

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.

#### Basis of Accounting

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenses when they result from cash transactions with a provision for depreciation. The modified cash basis of accounting is modified for recording investments at current fair value, rather than cost. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The School District's governmental funds use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received in cash and expenditures are recorded at the time of disbursement.

If the School District utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

#### Cash and Investments

Cash includes amounts in demand deposits, money market accounts, and highly liquid short-term investments with original maturities of three months or less.

Investments are recorded at fair value. All investment income, including changes in the fair value, is recognized in the statement of revenues, expenditures, and changes in fund balance – modified cash basis.

#### Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased 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. 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	Years
Buildings	50
Vehicles	15
Equipment	8
Land	Indefinite
Infrastructure	50

## BEULAH PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements – Continued

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#### Early Retirement

The School District offers an early retirement payment plan option to teachers if they choose to retire early. The benefit is available to employees who have completed 20 years of service to the School District, with at least 10 being consecutive, and the employee has attained eligibility standards of the North Dakota Teachers' Fund for Retirement (TFFR) for a normal (unreduced) service retirement. The benefit is 80% of the teacher's current curricular lane placement on the salary schedule during the first year of edibility under TFFR, and 60% of the teacher's current curricular lane placement on the salary schedule for the five subsequent years of TFFR eligibility.

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

#### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information disclosed in the pension note disclosure. Note 8, is shown as additional information to the users of the financial statements.

#### Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net OPEB liability is not reported under the modified cash basis of accounting, but the information disclosed in the OPEB note disclosure. Note 9, is shown as additional information to the users of the financial statements.

#### Fund Balances

*Restricted Fund Balances.* Restricted fund balance is shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (State & Federal governments for various grants & reimbursements).

*Assigned Fund Balances.* Assigned fund balance consists of internally imposed constraints. These constraints reflect the specific purpose for which the it is the School District's intended use and are established by the School Board and management.

*Unassigned Fund Balances.* Unassigned fund balance is reported in the general fund and for negative fund balances at year-end.

It is the policy of the School District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the School District to spend unrestricted resources in the following order: committed, assigned, unassigned.

### **Net Position**

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, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

### **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.

## **NOTE 2 PRIOR PERIOD ADJUSTMENTS**

### **Prior Period Errors**

Beginning net position and fund balance adjustments were necessary in order to correct an investment account that is being presented at fair value.

Adjustments to beginning net position are as follows:

<b>Governmental Activities</b>	
Beginning Net Position, as previously reported	\$ 9,348,776
Adjustments to restate the July 1, 2018 Net Position Fair Value Adjustment	(68,477)
Net Position January 1, as restated	\$ 9,280,299

Adjustments to beginning fund balances are as follows:

<b>Fund Balances</b>	<b>Amounts</b>
Beginning Fund Balance, as previously reported	\$ 9,348,776
Adjustments to restate the July 1, 2018 Fund Balance Fair Value Adjustment	(68,477)
Net Position January 1, as restated	\$ 9,280,299



**NOTE 3 DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the School District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The School District does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota statutes, deposits must either be deposited with the Bank of North Dakota or in other 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 any other state of the United States or such other securities approved by the banking board.

At year ended June 30, 2019, the School District's carrying amount of deposits was \$2,661,983 and the bank balances totaled \$3,207,503. Of the bank balances, \$506,404 was covered by Federal Depository Insurance, while the remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The School District does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

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.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

At June 30, 2019, the School District held investments in the amount of \$1,364,294, which consists of government backed securities, and are not considered deposits. The market value of the investments and their maturing dates can be seen below:

Investment Type	Total Fair Value	Less Than 1 Year	1-6 Years *	6-10 Years **	More Than 10 Years
Government Bonds	\$ 1,364,294	\$ -	\$ 759,960	\$ 604,334	\$ -

\*\$444,960 mature October 2024 but are callable October 2019.

\*\*\$311,631 mature June 2029 but are callable June 2020.

**BEULAH PUBLIC SCHOOL DISTRICT**

## Notes to the Financial Statements – Continued

**NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

The following table below presents the balances of assets measured at fair value on a recurring basis at June 30, 2019:

<b>Asset</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Total</b>
Government Bonds	\$ -	\$ 1,364,294		\$ 1,364,294

**NOTE 5 PROPERTY TAXES**

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 are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

**NOTE 6 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	<b>Balance July 1</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30</b>
<i>Capital assets not being depreciated</i>				
Construction in Progress	\$ 280,499	\$ -	\$ 280,499	\$ -
<i>Capital assets being depreciated</i>				
Buildings	\$ 13,373,662	\$ 264,797	\$ -	\$ 13,638,459
Building Improvements	643,718	13,850	-	657,568
Equipment and Furniture	622,737	291,057	-	913,794
Vehicles	1,193,383	-	-	1,193,383
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 15,833,500</b>	<b>\$ 569,704</b>	<b>\$ -</b>	<b>\$ 16,403,204</b>
<i>Less Accumulated Depreciation for</i>				
Buildings	\$ 9,535,729	\$ 205,969	\$ -	\$ 9,741,698
Building Improvements	29,510	22,594	-	52,104
Equipment and Furniture	443,119	45,505	-	488,624
Vehicles	867,002	84,248	-	951,250
<b>Total Accumulated Depreciation</b>	<b>\$ 10,875,360</b>	<b>\$ 358,316</b>	<b>\$ -</b>	<b>\$ 11,233,676</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 4,958,140</b>	<b>\$ 211,388</b>	<b>\$ -</b>	<b>\$ 5,169,528</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 5,238,639</b>	<b>\$ 211,388</b>	<b>\$ 280,499</b>	<b>\$ 5,169,528</b>

**BEULAH PUBLIC SCHOOL DISTRICT**Notes to the Financial Statements – Continued

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

Transportation	\$ 86,697
Regular Instruction	4,172
Operations and Maintenance	243,056
Co-Curricular	20,401
Food Service	3,990
Total Depreciation Expense	<u>\$ 358,316</u>

**NOTE 7 EARLY RETIREMENT**

The School District participates in an early retirement plan where an employee may choose early retirement if they have been a full-time employee who has completed a total of twenty years of service to the School District. The plan provides a positive method for dealing with declining enrollments and the resulting need to reduce staff. If a teacher retires in the first year of eligibility, they receive 80 percent of the lane placement on the salary schedule and receive 60 percent of the lane placement if they retire within five years after the initial year. As of June 30, 2019, the School District had a liability of \$30,760.

**NOTE 8 PENSION PLANS****General Information about the TFFR Pension Plan****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.

**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

## **BEULAH PUBLIC SCHOOL DISTRICT**

### **Notes to the Financial Statements – Continued**

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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.

### **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 service credited service in North Dakota, and (c) the Board of trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

### **Member and Employer Contributions**

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

### **Inflows of Resources Related to Pensions**

If reporting on the full accrual basis of accounting, at June 30, 2019 the School District would report a liability of \$7,073,604 for its proportionate share of net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the district's proportion was .530709%, an increase of .003990%.

There were no deferred inflows or outflows of resources reported on the School District's financial statements as they are reporting on the modified cash basis of accounting.

### **Actuarial Assumptions**

The total pension liability in the July 1, 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, 2018 funding actuarial valuation for TFFR.

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 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	58%	6.70%
Global Fixed Income	23%	1.50%
Global Real Assets	18%	5.10%
Cash Equivalents	1%	0.00%

### **Discount Rate**

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

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate**

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

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
School District's Proportionate Share of the Net Pension Liability	\$ 9,551,413	\$ 7,073,604	\$ 5,012,838

**Pension Plan Fiduciary Net Position**

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

**General Information about the NDPERS Pension Plan**

**North Dakota Public Employees Retirement System (Main System)**

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**Pension Benefits**

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

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

### **Death and Disability Benefits**

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability 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 wages. Member contribution rates are 7% and employer contributions rates are 7.12% of covered compensation.

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

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

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

If reporting on the full accrual basis of accounting, at June 30, 2019 the School District would report a liability of \$1,722,931 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 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 district'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, 2018, the School District's proportion was 0.102093%, which was an increase of .003990% from its proportion measured at June 30, 2017.

There were no deferred inflows or outflows of resources reported on the School District's financial statements as they are reporting on the modified cash basis of accounting.

### **Actuarial Assumptions**

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

**BEULAH PUBLIC SCHOOL DISTRICT**

## Notes to the Financial Statements – Continued

Inflation	2.50%
Salary increases	<div>Service at Beginning of year:</div> <div> <div>0</div> <div>1</div> <div>2</div> </div> <div>Increase Rate:</div> <div> <div>15.00%</div> <div>10.00%</div> <div>8.00%</div> </div> <div>Age*</div> <div> <div>Under 30</div> <div>30 – 39</div> <div>40 – 49</div> <div>50 – 59</div> <div>60+</div> </div> <div> <div>10.00%</div> <div>7.50%</div> <div>6.75%</div> <div>6.50%</div> <div>5.25%</div> </div> <div>* Age-based salary increase rates apply for employees with three or more years of service</div>
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

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 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	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

**Discount Rate**

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to



**BEULAH PUBLIC SCHOOL DISTRICT**

## Notes to the Financial Statements – Continued

projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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

The following presents School District's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the School 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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate.

	<b>1% Decrease (5.32%)</b>	<b>Current Discount Rate (6.32%)</b>	<b>1% Increase (7.32%)</b>
School District's Proportionate Share of the Net OPEB Liability	\$ 95,512	\$ 75,489	\$ 58,325

**Pension Plan Fiduciary Net Position**

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

**NOTE 9 OPEB PLAN****General Information about the OPEB Plan****North Dakota Public Employees Retirement System**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee

**BEULAH PUBLIC SCHOOL DISTRICT**

## Notes to the Financial Statements – Continued

receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

If reporting on the full accrual basis of accounting, at June 30, 2019, the School District would report a liability of \$75,489 for their proportionate shares of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on their share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the School District's proportion was 0.095851% which was an increase of .003280% from its proportion measured June 30, 2017.

**Actuarial assumptions**

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

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, net of investment expenses
Cost-of-Living Adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

**Discount rate**

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient

**BEULAH PUBLIC SCHOOL DISTRICT**

## Notes to the Financial Statements – Continued

to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the School District's proportionate share of the net OPEB liability to changes in the discount rate**

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
School District's Proportionate Share of the Net OPEB Liability	\$ 95,512	\$ 75,489	\$ 58,325

**NOTE 10 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, automobile insurance coverage and inland marine. The coverage by NDIRF is limited to losses of three million dollars 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of two million dollars for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The School District has worker's compensation with the Workforce, Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

**NOTE 11 NONMONETARY TRANSACTIONS**

The School District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2019 was \$32,024.

**NOTE 12 ECONOMIC DEPENDENCY**

The School District receives a substantial amount of its support from federal, state, and local governmental sources. A significant reduction in the level of this support, if this were to occur, may have a material effect on the School District's programs and therefore on its continued operations.

**BEULAH PUBLIC SCHOOL DISTRICT**  
 Budgetary Comparison Schedule - General Fund  
 June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Local Sources	\$ 2,713,367	\$ 2,713,367	\$ 3,003,393	\$ 290,026
State Sources	4,609,312	4,609,312	4,399,327	(209,985)
Federal Sources	197,592	197,592	174,650	(22,942)
Other Sources	25,000	25,000	49,081	24,081
Total Revenues	\$ 7,545,271	\$ 7,545,271	\$ 7,626,451	\$ 81,180
<b>EXPENDITURES</b>				
Current				
Regular Instruction	\$ 4,057,263	\$ 4,057,263	\$ 4,001,999	\$ 55,264
Special Education	215,097	215,097	207,691	7,406
Vocational Education	381,014	381,014	361,313	19,701
Federal Programs	249,273	249,273	189,945	59,328
District Wide Services	540,039	540,039	549,627	(9,588)
Administration	933,213	933,213	884,402	48,811
Operations and Maintenance	826,203	826,203	870,186	(43,983)
Transportation	570,622	570,622	590,883	(20,261)
Co-curricular Activities	397,619	397,619	353,267	44,352
Total Expenditures	\$ 8,170,343	\$ 8,170,343	\$ 8,009,313	\$ 161,030
Excess (Deficiency) of Revenues Over Expenditures	\$ (625,072)	\$ (625,072)	\$ (382,862)	\$ 242,210
<b>OTHER FINANCING SOURCES (USES)</b>				
Change in investment market value	\$ -	\$ -	\$ 30,988	\$ 30,988
Net Changes in Fund Balances	\$ (625,072)	\$ (625,072)	\$ (351,874)	\$ 273,198
Fund Balances - July 1	\$ 2,835,435	\$ 2,835,435	\$ 2,853,118	\$ 17,683
Prior Period Adjustment	\$ (68,477)	\$ (68,477)	\$ (68,477)	\$ -
Fund Balances - July 1 Restated	\$ 2,766,958	\$ 2,766,958	\$ 2,784,641	\$ 17,683
Fund Balances - June 30	\$ 2,141,886	\$ 2,141,886	\$ 2,432,767	\$ 290,881

STATE AUDITOR  
Joshua C. Gallion



PHONE  
701-328-2241

FAX  
701-328-2345

[www.nd.gov/auditor](http://www.nd.gov/auditor)

STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. Boulevard Ave., Dept. 117  
Bismarck, North Dakota, 58505

[ndsao@nd.gov](mailto:ndsao@nd.gov)

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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*

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### Independent Auditor's Report

School Board of Directors  
Beulah Public School District  
Beulah, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beulah Public School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Beulah Public School District's basic financial statements, and have issued our report thereon dated April 7, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Beulah Public School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Beulah Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Beulah Public 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2019-001 and 2019-002 that we consider to be material weaknesses.

## **BEULAH PUBLIC SCHOOL DISTRICT**

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* - Continued

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### **Compliance and Other Matters**

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

### **Beulah Public School District's Response to Findings**

Beulah Public School District's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Beulah Public School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
April 7, 2020

# BEULAH PUBLIC SCHOOL DISTRICT

Summary of Auditor's Results  
For the Year Ended June 30, 2019

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## Financial Statements

Type of Report Issued?

Governmental Activities – Modified Cash Basis

Unmodified

Major Funds – Modified Cash Basis

Unmodified

Aggregate Remaining Fund Information – Modified Cash Basis

Unmodified

## Internal control over financial reporting

Material weaknesses identified?

  X   Yes           None Noted

Significant deficiencies identified not considered to be material weaknesses?

       Yes      X   None Noted

Noncompliance material to financial statements noted?

       Yes      X   None Noted

# **BEULAH PUBLIC SCHOOL DISTRICT**

Schedule of Audit Findings

For the Year Ended June 30, 2019

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## **2019-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS**

### **Condition**

Beulah Public School District currently does not prepare the financial statements, including the accompanying note disclosures, as required by the modified cash basis of accounting. Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

### **Effect**

There is an increased risk of material misstatement to the Beulah Public School District's financial statements.

### **Cause**

Management chooses not to allocate school district resources for preparation of the financial statements.

### **Criteria**

Beulah Public School District is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

### **Repeat Finding**

Yes.

### **Recommendation**

We recommend Beulah Public School District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future.

### **Beulah Public School District's Response**

Agree. Beulah Public School District is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.



**2019-002 ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS**

**Condition**

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with the modified cash basis of accounting.

**Effect**

Inadequate internal controls over recording of transactions affects Beulah Public School District's ability to detect misstatements in amounts that could be material in relation to the financial statements.

**Cause**

Management has chosen to allocate its economic resources to other functions of the Beulah Public School District.

**Criteria**

Beulah Public School District is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the modified cash basis of accounting.

**Repeat Finding**

Yes.

**Recommendation**

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit. We recommend Beulah Public School District consider the additional risk of having the auditors assist in the preparation of the financial statements in accordance with the modified cash basis of accounting.

**Beulah Public School District's Response**

Agree. Beulah Public School District will review current year adjustments and determine if it is cost beneficial for the business manager to identify the adjustment prior to the start of future audits.

**STATE AUDITOR**  
Joshua C. Gallion



**PHONE**  
701-328-2241

**FAX**  
701-328-2345

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**STATE OF NORTH DAKOTA**  
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## **GOVERNANCE COMMUNICATION**

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School Board of Directors  
Beulah Public School District  
Beulah, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beulah Public School District, North Dakota, as of and for the year ended June 30, 2019, which collectively comprise the Beulah Public School District's basic financial statements and have issued our report thereon dated April 7, 2020. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated March 6, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the Beulah Public School District, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Beulah Public School District, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

### **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 our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Beulah Public School District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures were corrected by management.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
Cash	-	-	30,988	-	30,988	-
Fund Balance	-	-	-	30,988	-	30,988
Cash	-	-	11,625	-	11,625	-
Revenues	-	-	-	11,625	-	11,625
Revenues	-	-	174,092	-	174,092	-
Cash	-	-	-	174,092	-	174,092
Expenditures	455,625	-	-	-	455,625	-
Health Insurance Payable	71,037	-	-	-	71,037	-
Salaries Payable	-	526,662	-	-	-	526,662
Fund Balance	835,224	-	-	-	835,224	-
Accounts Receivable	-	53,836	-	-	-	53,836
Interfund Receivable	-	766,513	-	-	-	766,513
Accounts Payable	-	14,875	-	-	-	14,875
PPA Fund Balance	-	-	68,477	-	68,477	-
PPA Fund Balance	-	-	-	68,477	-	68,477

### 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. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 7, 2020.

### 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 School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Difficulties Encountered in Performing the Audit**

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

**Other Audit Findings or Issues**

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

This information is intended solely for the use of the Board of Directors and management of the Beulah Public School District, North Dakota and should not be used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the Beulah Public School District for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the Beulah Public School District.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
April 7, 2020



Office of the  
State Auditor

NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505