

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

AUDITED FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

TABLE OF CONTENTS
June 30, 2019 and 2018

	<u>Page(s)</u>
Official Directory	1
INDEPENDENT AUDITOR’S REPORT	2 – 3
BASIC FINANCIAL STATEMENTS	
Statements of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5 – 6
Balance Sheet – Governmental Funds – Modified Cash Basis	7 – 8
Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Position – Modified Cash Basis	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – Modified Cash Basis	10 – 11
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balance to the Statements of Activities – Modified Cash Basis	12
Statements of Fiduciary Assets and Liabilities – Agency Funds – Modified Cash Basis	13
Notes to Financial Statements	14 – 28
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund – Modified Cash Basis	29 – 30
Nonmajor Governmental Funds – Combining Balance Sheet – Modified Cash Basis	31 – 32
Nonmajor Governmental Funds – Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis	33 – 34
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 <i>GOVERNMENT AUDITING STANDARDS</i>	35 – 36
Schedule of Current Year Findings	37 – 38
Summary Schedule of Prior Audit Findings	39

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

OFFICIAL DIRECTORY
June 30, 2019

Tim Campbell	President
Casey Stevens	Vice-President
Rena Swanson	Board Member
Jennifer Kleveland	Board Member
Mike Grefsrud	Board Member
Brian Nelson	Superintendent
Amy Gebro	Business Manager



INDEPENDENT AUDITOR'S REPORT

School Board
Fairmount Public School District
Fairmount, 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 the aggregate remaining fund information of the Fairmount Public School District, as of and for the years ended June 30, 2019 and 2018, and the related notes to financial statements, which collectively comprise Fairmount Public School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fairmount Public School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairmount Public School District, as of June 30, 2019 and 2018 and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. 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 this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairmount Public School District's basic financial statements. The budgetary comparison schedule, nonmajor governmental funds – combining balance sheet, and nonmajor governmental funds – schedule of revenues, expenditures, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule, nonmajor governmental funds – combining balance sheet, and nonmajor governmental funds – schedule of revenues, expenditures, and changes in fund balance are the responsibility of management and were derived from and relate 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, nonmajor governmental funds – combining balance sheet, and nonmajor governmental funds – schedule of revenues, expenditures, and changes in fund balance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The official directory 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 them.

As discussed in Note 11 to the financial statements, there was an error in capital assets as of June 30, 2017 that was discovered by management in the current year. Accordingly, an adjustment has been made to net position as of June 30, 2017 to correct the error. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022 on our consideration of Fairmount 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 Fairmount Public School District's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, North Dakota
May 9, 2022

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

STATEMENTS OF NET POSITION – MODIFIED CASH BASIS
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 525,799	\$ 552,997
Savings and CD's	<u>200,000</u>	<u>200,000</u>
Total Current Assets	725,799	752,997
Capital Assets		
Depreciable, net of accumulated depreciation		
Buildings and Improvements	257,337	280,186
Vehicles	84,296	98,184
Equipment	<u>20,795</u>	<u>25,469</u>
Total Capital Assets	<u>362,428</u>	<u>403,839</u>
Total Assets	1,088,227	1,156,836
LIABILITIES		
Current Liabilities		
Payroll Liabilities	<u>3,193</u>	<u>5,736</u>
Total Current Liabilities	<u>3,193</u>	<u>5,736</u>
Total Liabilities	3,193	5,736
NET POSITION		
Net Investment in Capital Assets	362,428	403,839
Restricted	190,140	167,102
Unrestricted	<u>532,466</u>	<u>580,159</u>
Total Net Position	<u>\$ 1,085,034</u>	<u>\$ 1,151,100</u>

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Regular Instruction	\$ 1,238,586	\$ -	\$ 126,473	\$ (1,112,113)
Special Instruction	193,585	-	-	(193,585)
Vocational Instruction	40,977	-	-	(40,977)
Pupil Services	23,867	-	-	(23,867)
General Administration Services	129,117	-	-	(129,117)
School Administration Services	66,687	-	-	(66,687)
Operation and Maintenance	152,324	-	-	(152,324)
Pupil Transportation	54,426	-	38,430	(15,996)
Student Activities	105,406	-	-	(105,406)
School Food Services	73,260	14,202	54,321	(4,737)
Community Services	1,000	-	-	(1,000)
	<u>\$ 2,079,235</u>	<u>\$ 14,202</u>	<u>\$ 219,224</u>	<u>(1,845,809)</u>
General Revenues				
Taxes				
				499,952
				59,718
				1,208,205
				5,188
				6,680
				<u>1,779,743</u>
				Change in Net Position (66,066)
				Net Position, Beginning of Year 1,151,100
				<u>Net Position, End of Year \$ 1,085,034</u>

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Regular Instruction	\$ 1,241,659	\$ -	\$ 108,766	\$ (1,132,893)
Special Instruction	230,858	-	-	(230,858)
Vocational Instruction	27,559	-	369	(27,190)
Pupil Services	21,678	-	-	(21,678)
General Administration Services	126,801	-	-	(126,801)
School Administration Services	59,539	-	-	(59,539)
Operation and Maintenance	162,394	-	-	(162,394)
Pupil Transportation	46,561	-	28,320	(18,241)
Student Activities	94,015	-	-	(94,015)
School Food Services	73,037	17,353	51,306	(4,378)
Community Services	1,000	-	-	(1,000)
	<u>\$ 2,085,101</u>	<u>\$ 17,353</u>	<u>\$ 188,761</u>	<u>(1,878,987)</u>
General Revenues				
Taxes				
				488,243
				58,338
				1,284,895
				2,983
				9,345
				<u>1,843,804</u>
				(35,183)
				<u>1,186,283</u>
				<u>\$ 1,151,100</u>

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
June 30, 2019

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
ASSETS				
Cash and Cash Equivalents	\$ 335,659	\$ 141,532	\$ 48,608	\$ 525,799
Savings and CD's	200,000	-	-	200,000
Total Assets	535,659	141,532	48,608	725,799
LIABILITIES				
Payroll Liabilities	3,193	-	-	3,193
Total Liabilities	3,193	-	-	3,193
FUND BALANCE				
Restricted	-	141,532	48,608	190,140
Unassigned	532,466	-	-	532,466
Fund Balance	532,466	141,532	48,608	722,606
Total Liabilities and Fund Balance	\$ 535,659	\$ 141,532	\$ 48,608	\$ 725,799

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
June 30, 2018

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
ASSETS				
Cash and Cash Equivalents	\$ 385,895	\$ 90,681	\$ 76,421	\$ 552,997
Savings and CD's	200,000	-	-	200,000
Total Assets	585,895	90,681	76,421	752,997
LIABILITIES				
Payroll Liabilities	5,736	-	-	5,736
Total Liabilities	5,736	-	-	5,736
FUND BALANCE				
Restricted	-	90,681	76,421	167,102
Unassigned	580,159	-	-	580,159
Fund Balance	580,159	90,681	76,421	747,261
Total Liabilities and Fund Balance	\$ 585,895	\$ 90,681	\$ 76,421	\$ 752,997

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION – MODIFIED CASH BASIS
June 30, 2019 and 2018**

Total Fund Balance - Governmental Funds June 30, 2019		\$ 722,606
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	1,293,029	
Less Accumulated Depreciation	(930,601)	
Net Capital Assets	<u>362,428</u>	<u>362,428</u>
Total Net Position of Governmental Activities June 30, 2019		<u>\$ 1,085,034</u>
Total Fund Balance - Governmental Funds June 30, 2018		\$ 747,261
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	1,293,029	
Less Accumulated Depreciation	(889,190)	
Net Capital Assets	<u>403,839</u>	<u>403,839</u>
Total Net Position of Governmental Activities June 30, 2018		<u>\$ 1,151,100</u>

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**
Year Ended June 30, 2019

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
REVENUES				
Local Sources	\$ 522,177	\$ 59,718	\$ 16,932	\$ 598,827
State Sources	1,246,814	-	-	1,246,814
Federal Sources	155,660	-	-	155,660
Interest Income	4,502	431	255	5,188
Miscellaneous Income	6,680	-	-	6,680
Total Revenues	1,935,833	60,149	17,187	2,013,169
EXPENDITURES				
Current				
Regular Instruction	1,238,586	-	-	1,238,586
Special Instruction	193,585	-	-	193,585
Vocational Instruction	40,977	-	-	40,977
Pupil Services	23,867	-	-	23,867
General Administration Services	129,117	-	-	129,117
School Administration Services	66,687	-	-	66,687
Operation and Maintenance	118,120	9,298	-	127,418
Pupil Transportation	40,538	-	-	40,538
Student Activities	105,406	-	-	105,406
School Food Services	70,643	-	-	70,643
Community Services	1,000	-	-	1,000
Total Expenditures	2,028,526	9,298	-	2,037,824
Excess (Deficiency) of over Expenditures	(92,693)	50,851	17,187	(24,655)
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	45,000	-	-	45,000
Operating Transfer Out	-	-	(45,000)	(45,000)
Total Other Financing Sources (Uses)	45,000	-	(45,000)	-
NET CHANGE IN FUND BALANCE	(47,693)	50,851	(27,813)	(24,655)
FUND BALANCE, BEGINNING OF YEAR	580,159	90,681	76,421	747,261
FUND BALANCE, END OF YEAR	\$ 532,466	\$ 141,532	\$ 48,608	\$ 722,606

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**
Year Ended June 30, 2018

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
REVENUES				
Local Sources	\$ 533,525	\$ 58,338	\$ -	\$ 591,863
State Sources	1,313,584	-	-	1,313,584
Federal Sources	132,143	-	-	132,143
Interest Income	2,757	106	120	2,983
Miscellaneous Income	9,345	-	-	9,345
Total Revenues	1,991,354	58,444	120	2,049,918
EXPENDITURES				
Current				
Regular Instruction	1,241,659	-	-	1,241,659
Special Instruction	230,858	-	-	230,858
Vocational Instruction	27,559	-	-	27,559
Pupil Services	21,678	-	-	21,678
General Administration Services	126,801	-	-	126,801
School Administration Services	59,539	-	-	59,539
Operation and Maintenance	110,670	26,818	-	137,488
Pupil Transportation	32,673	-	-	32,673
Student Activities	94,015	-	-	94,015
School Food Services	70,420	-	-	70,420
Community Services	1,000	-	-	1,000
Facilities Acquisition and Construction	-	51,847	-	51,847
Total Expenditures	2,016,872	78,665	-	2,095,537
Excess (Deficiency) of over Expenditures	(25,518)	(20,221)	120	(45,619)
FUND BALANCE, BEGINNING OF YEAR	605,677	110,902	76,301	792,880
FUND BALANCE, END OF YEAR	\$ 580,159	\$ 90,681	\$ 76,421	\$ 747,261

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENTS OF ACTIVITIES – MODIFIED CASH BASIS**
Years Ended June 30, 2019 and 2018

Net Change in Fund Balances - Total Government Funds June 30, 2019	\$ (24,655)
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 costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.	
	<u>(41,411)</u>
Change in Net Position of Governmental Activities June 30, 2019	<u>\$ (66,066)</u>
Net Change in Fund Balances - Total Government Funds June 30, 2018	\$ (45,619)
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 costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.	
	<u>10,436</u>
Change in Net Position of Governmental Activities June 30, 2018	<u>\$ (35,183)</u>

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS – MODIFIED CASH BASIS
June 30, 2019 and 2018

	Agency Funds	
	2019	2018
Assets		
Cash and Investments	\$ 45,748	\$ 21,456
Total Assets	45,748	21,456
Liabilities		
Due to Groups	45,748	21,456
Total Liabilities	\$ 45,748	\$ 21,456

See Notes to Financial Statements

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fairmount Public School District, Fairmount, North Dakota (the District) are presented on a modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying financial statements present the activities of the Fairmount Public School District. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the Fairmount Public 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 Fairmount Public School District.

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

B. Basis of Presentation, Basis of Accounting

Government-wide statements - The statement of net position and the statement of activities display information about the primary government (Fairmount Public School District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, fees and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The District reports the following major governmental funds:

1. *General Fund* – The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. *Capital Projects Fund* – Used to account for financial resources related to capital outlays made by the District.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

Additionally, the District reports the following governmental fund types that are included in non-major funds:

1. Governmental Funds
 - a. *Special Reserve Fund* – Used to account for resources restricted to, or designated for, specific purposes by the District.
2. Fiduciary Funds
 - a. *Agency Funds* – Used to account for resources held for others in a custodial capacity, the District's Agency Fund is the Student Activity Fund.

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

Governmental funds are reported using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund balance, revenues, expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

E. Capital Assets

Capital assets include land, buildings, and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the 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 asset 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.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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

<u>Assets</u>	<u>Years</u>
Buildings/Improvements	20 - 50
Equipment	10
Busses/Vehicles	10

F. Vacation Pay and Sick Pay

The expenditures for vacation and sick pay are recognized when payment is made. Full time employees are allowed up to 2 days of sick leave per year that accumulates to a maximum of 10 days per year. Full time employees are allowed 5 days of paid vacation after 6 months of consecutive employment. Thereafter, employees receive 1 additional day of paid vacation for every additional year of employment to a maximum of 15 days of paid vacation.

G. Long-term Obligations

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

H. Fund Balance and Net Position

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

Fund Balance Spending Policy:

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

Budget Stabilization Policy:

Replenishing deficiencies - when fund balance falls below the minimum 10 percent range, the District will replenish shortages/deficiencies using the budget strategies and time frames described as follows:

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

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

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

GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purpose for which resources can be used:

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

CLASSIFICATION	DEFINITION	EXAMPLES
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A 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, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Restricted Fund Balance

1. Special Revenue Fund
 - a. Fund used for special uses as restricted by state law. In accordance with NDCC 57-19-01, the ending fund balance is limited to the amount generated by fifteen (15) mills times the taxable valuation of the District. Restricted by enabling legislation and tax levy.
2. Capital Projects Fund
 - a. Fund used for capital asset acquisition or expenditure. Restricted by enabling legislation, tax levy, and bond indenture.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

Unassigned Fund Balance

1. General Fund
 - a. Consists of the amount reported in the General Fund at year-end.

Net Position

The District implemented the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2013.

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

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

Restrictions of net position, shown in the Statement of Net Position, are due to restricted tax levies and bond indenture capital construction requirements for capital projects and special purposes. Unrestricted net position is primarily unrestricted amounts related to the general fund and any negative fund balances. The unrestricted net position is available to meet the District's ongoing obligations.

I. Interfund Transactions

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

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

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

Expenditures over Appropriations – General fund expenditures did not exceed budgeted amounts for the years ended June 30, 2019 and 2018.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board. For the years ended June 30, 2019 and 2018, the District's carrying amounts of deposits were \$771,547 and \$774,453. The bank balances were \$977,129 and \$962,125. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and the remaining bank balances were collateralized with securities held by pledging financial institution's agents in the government's name.

Credit Risk:

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

1. 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.
2. 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.
3. Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
4. Obligations of the state.

As of June 30, 2019 and 2018, the District held certificates of deposits totaling \$200,000 and \$200,000.

Interest Rate Risk:

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

Concentration of Credit Risk:

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

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended June 30, 2019 and 2018:

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
Governmental Activities:				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 1,050,792	\$ -	\$ -	\$ 1,050,792
Vehicles	168,883	-	-	168,883
Equipment	73,354	-	-	73,354
Total Capital Assets, being depreciated	1,293,029	-	-	1,293,029
Less Accumulated Depreciation for:				
Buildings and Improvements	770,606	22,849	-	793,455
Vehicles	70,699	13,888	-	84,587
Equipment	47,885	4,674	-	52,559
Total Accumulated Depreciation	889,190	41,411	-	930,601
Total Capital Assets Being Depreciated, net	403,839	(41,411)	-	362,428
Governmental Activities Capital Assets, net	\$ 403,839	\$ (41,411)	\$ -	\$ 362,428

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Governmental Activities:				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 1,008,527	\$ 42,265	\$ -	\$ 1,050,792
Vehicles	168,883	-	-	168,883
Equipment	63,772	9,582	-	73,354
Total Capital Assets, being depreciated	1,241,182	51,847	-	1,293,029
Less Accumulated Depreciation for:				
Buildings and Improvements	747,757	22,849	-	770,606
Vehicles	56,811	13,888	-	70,699
Equipment	43,211	4,674	-	47,885
Total Accumulated Depreciation	847,779	41,411	-	889,190
Total Capital Assets Being Depreciated, net	393,403	10,436	-	403,839
Governmental Activities Capital Assets, net	\$ 393,403	\$ 10,436	\$ -	\$ 403,839

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

	2019	2018
Governmental Activities:		
Operation and Maintenance	\$ 24,906	\$ 24,906
Pupil Transportation	13,888	13,888
School Food Services	2,617	2,617
Total Depreciation Expense - Governmental Activities	\$ 41,411	\$ 41,411

NOTE 5 – RISK MANAGEMENT

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

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$2,000,000 per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$695,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health and boiler and machinery insurance. Settled claims resulting from these above risks have not exceeded insurance coverage in any of the past three fiscal years.

The District has elected to be self-insured and retain all risk for liabilities resulting from claims of unemployment benefits. During the years ended June 30, 2019 and 2018, no claims were filed for unemployment benefits.

NOTE 6 – PENSION PLANS

North Dakota Teacher's Fund for Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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.

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.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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

Member and Employer Contributions

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

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

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

At June 30, 2019 and 2018, if the District were to report on the full accrual basis, a liability of \$2,019,907 and \$2,048,717 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2018 and 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial calculation 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 employees. At June 30, 2019 and 2018 the District's proportion was .151547% and .149157%. The District's pension contributions for the years ended June 30, 2019 and 2018 was \$132,459 and \$131,354.

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 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 RP2014 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.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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

- Investment return assumption lowered from 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administration 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 adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of July 1, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
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 the 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, 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.

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.

North Dakota Public Employees Retirement System

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

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

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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 provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition 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 contribution rates are 7.12% of covered compensation.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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.

At June 30, 2019 and 2018, if the District were to report on the full accrual basis, a liability of \$0 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2018 and 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial calculation as of that date. The District’s proportion of the net pension liability was based on the Districts share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At June 30, 2019 and 2018 the District’s proportion was 0%. The District’s pension contributions for the years ended June 30, 2019 and 2018 was \$5,686 and \$0.

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	2.50%		
Salary Increases	Service At Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%
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 were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
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).

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%.

Pension Plan Fiduciary Net Position

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

NOTE 7 – JOINT VENTURE

The District participates in the following joint ventures:

A. South Valley Multi-District Special Education Unit

Formed for the purpose of providing special education services to the member school districts. The Co-op's governing board is composed of representatives from the member school districts, who are superintendents. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget. The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. Separate financial statements for this joint venture are available from South Valley Multi-District Special Education Unit.

B. Southeast Region Career and Technology Center

Formed for the purpose of providing vocational services to the member school districts. The Co-op’s governing board is

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Notes to Financial Statements – Continued

composed of representatives from the member school districts, who are school board members. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget. The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation. Separate financial statements for this joint venture are available from Southeast Region Career and Technology Center.

NOTE 8 – NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its food service program. The market value of commodities received for the years ended June 30, 2019 and 2018 was \$5,774 and \$6,178.

NOTE 9 – CONCENTRATIONS

The District receives a substantial amount of its support from federal and state governments. A significant reduction in this support may have a material effect on the District's programs and its continued operations.

NOTE 10 – CORRECTION OF MISSTATEMENT

It was determined that there was a financial misstatement for the year ended June 30, 2017. The misstatement includes an overstatement of capital assets and accumulated depreciation. Capital assets and accumulated depreciation have been corrected to reflect the subtractions. The District made the following correction:

Net Position, previously reported	\$ 1,229,938
Fixed Assets	(251,285)
Accumulated Depreciation	<u>207,630</u>
Net Position, restated	<u>\$ 1,186,283</u>

NOTE 11 – TRANSFERS

\$45,000 was transferred from the special reserve fund to the general fund during the year ended June 30, 2019.

NOTE 12 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 9, 2022, the date on which the financial statements were available to be issued.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 557,511	\$ 557,511	\$ 522,177	\$ (35,334)
State Sources	1,259,173	1,259,173	1,246,814	(12,359)
Federal Sources	133,886	133,886	155,660	21,774
Interest Income	27,400	27,400	4,502	(22,898)
Miscellaneous Income	3,000	3,000	6,680	3,680
Total Revenues	<u>1,980,970</u>	<u>1,980,970</u>	<u>1,935,833</u>	<u>(45,137)</u>
EXPENDITURES				
Current				
Regular Instruction	1,247,730	1,247,730	1,238,586	9,144
Special Instruction	193,486	193,486	193,585	(99)
Vocational Instruction	41,405	41,405	40,977	428
Pupil Services	24,233	24,233	23,867	366
General Administration Services	131,509	131,509	129,117	2,392
School Administration Services	70,736	70,736	66,687	4,049
Operation and Maintenance	121,928	121,928	118,120	3,808
Pupil Transportation	50,731	50,731	40,538	10,193
Student Activities	101,754	101,754	105,406	(3,652)
School Food Services	69,035	69,035	70,643	(1,608)
Community Services	1,000	1,000	1,000	-
Total Expenditures	<u>2,053,547</u>	<u>2,053,547</u>	<u>2,028,526</u>	<u>25,021</u>
Excess (Deficiency) of Revenues over Expenditures	(72,577)	(72,577)	(92,693)	(20,116)
OTHER FINANCING SOURCES				
Operating Transfer In	-	-	45,000	45,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>45,000</u>
NET CHANGE IN FUND BALANCE	(72,577)	(72,577)	(47,693)	24,884
FUND BALANCE, BEGINNING OF YEAR			<u>580,159</u>	
FUND BALANCE, END OF YEAR			<u>\$ 532,466</u>	

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 502,283	\$ 502,283	\$ 533,525	\$ 31,242
State Sources	1,319,126	1,319,126	1,313,584	(5,542)
Federal Sources	128,444	128,444	132,143	3,699
Interest Income	2,250	2,250	2,757	507
Miscellaneous Income	3,000	3,000	9,345	6,345
Total Revenues	1,955,103	1,955,103	1,991,354	36,251
EXPENDITURES				
Current				
Regular Instruction	1,265,592	1,265,592	1,241,659	23,933
Special Instruction	226,923	226,923	230,858	(3,935)
Vocational Instruction	32,355	32,355	27,559	4,796
Pupil Services	22,112	22,112	21,678	434
General Administration Services	126,793	126,793	126,801	(8)
School Administration Services	65,719	65,719	59,539	6,180
Operation and Maintenance	120,672	120,672	110,670	10,002
Pupil Transportation	39,580	39,580	32,673	6,907
Student Activities	84,754	84,754	94,015	(9,261)
School Food Services	67,285	67,285	70,420	(3,135)
Community Services	1,000	1,000	1,000	-
Total Expenditures	2,052,785	2,052,785	2,016,872	35,913
Excess (Deficiency) of Revenues over Expenditures	(97,682)	(97,682)	(25,518)	72,164
FUND BALANCE, BEGINNING OF YEAR			<u>605,677</u>	
FUND BALANCE, END OF YEAR			<u>\$ 580,159</u>	

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

NONMAJOR GOVERNMENTAL FUNDS – COMBINING BALANCE SHEET – MODIFIED CASH BASIS
June 30, 2019

	<u>Special Reserve</u>
ASSETS	
Cash and Cash Equivalents	\$ 48,608
Total Assets	48,608
FUND BALANCE	
Restricted	48,608
Fund Balance	48,608
Total Liabilities and Fund Balance	<u>\$ 48,608</u>

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

NONMAJOR GOVERNMENTAL FUNDS – COMBINING BALANCE SHEET – MODIFIED CASH BASIS
June 30, 2018

	<u>Special Reserve</u>
ASSETS	
Cash and Cash Equivalents	\$ 76,421
Total Assets	<u>76,421</u>
FUND BALANCE	
Restricted	<u>76,421</u>
Fund Balance	<u>76,421</u>
Total Liabilities and Fund Balance	<u>\$ 76,421</u>

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**NONMAJOR GOVERNMENTAL FUNDS – COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – MODIFIED CASH BASIS**
Year Ended June 30, 2019

	<u>Special Reserve</u>
REVENUES	
Local Sources	\$ 16,932
Interest Income	<u>255</u>
Total Revenues	17,187
OTHER FINANCING SOURCES (USES)	
Operating Transfer Out	<u>(45,000)</u>
Total Other Financing Sources (Uses)	<u>(45,000)</u>
NET CHANGE IN FUND BALANCE	(27,813)
FUND BALANCE, BEGINNING OF YEAR	<u>76,421</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 48,608</u></u>

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

**NONMAJOR GOVERNMENTAL FUNDS – COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – MODIFIED CASH BASIS**
Year Ended June 30, 2018

	<u>Special Reserve</u>
REVENUES	
Interest Income	<u>\$ 120</u>
Total Revenues	120
FUND BALANCE, BEGINNING OF YEAR	<u>76,301</u>
FUND BALANCE, END OF YEAR	<u>\$ 76,421</u>



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*

School Board
Fairmount Public School District
Fairmount, 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairmount Public School District, as of and for the years ended June 30, 2019 and 2018, and the related notes to financial statements, which collectively comprise the Fairmount Public School District's basic financial statements, and have issued our report thereon dated May 9, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fairmount Public School District'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 Fairmount Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairmount 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 these 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*.

District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Fairmount Public School District's response to the finding identified in our audit and described in the accompanying schedule of current year findings. The Fairmount Public School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, North Dakota
May 9, 2022

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

SCHEDULE OF CURRENT YEAR FINDINGS
Years ended June 30, 2019 and 2018

2019-001 INADEQUATE SEGREGATION OF DUTIES

Criteria

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition

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

Effect or Potential Effect

Without sufficient segregation of duties, the risk significant increases that errors and fraud related to cash receipts, disbursements, and reconciliations, including misappropriation of assets, could occur and not be detected within a timely basis.

Cause

The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding and we understand that this will be a repeated recommendation due to the limited amount of resources of the District. The District will segregate functions where feasible.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Schedule of Current Year Findings – Continued

2019-002 FINANCIAL STATEMENT PREPARATION

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect of Potential Effect

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to financial statements that are materially correct without the assistance of the auditors.

Recommendation

We recommend the District be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. As a compensating control, the District should establish an internal control policy to document annual review of the financial statements and to review a financial statement disclosure checklist.

Views of Responsible Officials

The District will continue to have the auditor prepare the financial statements. It is currently not cost-effective for management to perform the preparation.

FAIRMOUNT PUBLIC SCHOOL DISTRICT
Fairmount, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Years ended June 30, 2019 and 2018

Prior Financial Statement Findings:

2017-1

A material weakness was reported for inadequate segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This material weakness continues to exist under the current audit findings as finding number 2019-001.