

AUDIT REPORT

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

EXAMINATION FOR THE YEAR ENDED
JUNE 30, 2019

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

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L & J JOHNSON

Certified Public Accountants

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
Kenmare Public School District No. 28
Kenmare, 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 and each major fund of Kenmare Public School District No. 28, Kenmare, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Kenmare Public School District No. 28, Kenmare, North Dakota's basic financial statements and have issued our report thereon dated November 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kenmare Public School District No. 28, Kenmare, North Dakota'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 Kenmare Public School District No. 28, Kenmare, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Kenmare Public School District No. 28, Kenmare, North Dakota's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses, items 19-1 and 19-2, to be material weaknesses.

Compliance and Other Matters

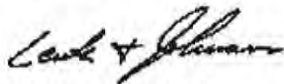
As part of obtaining reasonable assurance about whether Kenmare Public School District No. 28, Kenmare, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

Kenmare Public School District No. 28's Response to Findings

Kenmare Public School District No. 28, Kenmare, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Kenmare Public School District No. 28, Kenmare, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an 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.



LERVIK & JOHNSON
Certified Public Accountants
Kenmare, North Dakota

November 10, 2019

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
Kenmare, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2019

Our audit of Kenmare Public School District No. 28, Kenmare, North Dakota found the following material weaknesses:

19-1 Segregation of Duties

Condition: The Kenmare Public School District No. 28, Kenmare, North Dakota, has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the school.

Effect: There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the school's financial condition.

Recommendation: To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Client Response: Agree. Kenmare Public School District No. 28 does not have adequate resources to obtain proper internal controls to properly segregate duties. We will segregate duties to the extent possible.

19-2 Check Signatures

Condition: In lieu of the school board president signing checks manually, the school district utilizes a signature plate. The business manager, whose signature is also required on checks, has access to this signature plate. Certain procedures have been put in place to minimize this circumvention of the dual signature control.

Criteria: A measure of internal control can be accomplished with the requirement of dual signatures on school district warrants.

Effect: This internal control is circumvented.

Recommendation: To mitigate the risk associated with dual signatures we recommend that the signature plate not be used and the school board appoint an alternate signator in the event the school board president is unavailable.

Client Response: We concur with this recommendation.

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&
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

School Board
Kenmare Public School District No. 28
Kenmare, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Kenmare Public School District No. 28, Kenmare, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 circumstance, 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 and each major fund of Kenmare Public School District No. 28, Kenmare, North Dakota, as of June 30, 2019, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

The supplementary information is the responsibility of management and was derived from and related 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and pension information on pages 7-11 and 39-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2019, on our consideration of Kenmare Public School District No. 28'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kenmare Public School District No. 28's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

November 10, 2019

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of Kenmare Public School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements, which can be found on pages 12-18 of this report.

Financial Highlights

Key financial highlights for the fiscal year 2018-2019 are as follows:

- Net position of the Kenmare Public School increased (decreased) \$196,404 as a result of the current years operations. This compares to an increase (decrease) of \$124,060 for the prior year.
- Governmental net position as of the end of the fiscal year totaled \$826,298. Of this amount, \$(2,675,261) was unrestricted. For the prior year, governmental net assets totaled \$629,894 and of this amount \$(2,765,527) was unrestricted.
- Total revenues from all sources were \$5,351,792 compared to \$5,243,240 for the prior year.
- Total expenditures from all sources were \$5,155,388 compared to \$5,119,180 for the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$1,110,370, or 25% of total general fund expenditures. For the prior year, the unassigned fund balance was \$907,448, or 20% of total general fund expenditures.
- The District's general fund had \$4,703,220 in total revenues and \$4,500,298 in total expenditures. There was a total of \$-0- from other financing sources. Overall, the general fund balance increased (decreased) by \$202,922 for the year ended June 30, 2019. For the prior year, the District's general fund had \$4,600,191 in total revenues and \$4,586,589 in total expenditures. There was a total of \$-0- from other financing sources. Overall, the general fund balance increased (decreased) by \$13,602 for the year ended June 30, 2018.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Kenmare Public School District's basic financial statements. The Kenmare Public School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Kenmare Public School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Kenmare Public School District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Kenmare Public School District is improving or deteriorating.

The *Statement of activities* presents information showing how the school's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the Kenmare Public School District that are principally supported by taxes and intergovernmental revenues (government activities).

The governmental activities of the Kenmare Public School District include regular instruction, special education, vocational education, technology services, library media services, district wide services, administration, school food services, buildings and grounds operations and maintenance, student transportation, co curricular activities, rental payments, capital outlay and debt services. The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kenmare Public School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Kenmare Public School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Kenmare Public School District maintains 4 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, food service fund, special reserve fund, and building fund, all of which are considered to be major funds.

The Kenmare Public School District adopts an annual appropriated budget for its general fund a budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Kenmare Public School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-38 of this report.

Government-wide Financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Kenmare Public School District, assets exceeded liabilities by \$826,298 at the close of the most recent fiscal year.

A large portion of the Kenmare Public Schools District's net position \$2,071,231 reflects its investment in capital assets (e.g., land, buildings, and improvements, buildings and infrastructure, machinery and equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Kenmare Public School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Kenmare Public School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Kenmare Public School District's net position \$1,430,328 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$-2,675,261 may be used to meet the school's ongoing obligations to citizens and creditors.

The school's net position increased (decreased) by \$196,404 during the current fiscal year.

**Kenmare Public School District Net Position
Governmental Activities**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current and other assets	\$ 2,679,847	\$ 2,245,717	\$ 1,929,631
Capital assets	4,496,231	4,602,481	4,745,526
Deferred outflows	<u>813,770</u>	<u>1,047,225</u>	<u>1,140,514</u>
Total assets & deferred outflows	7,989,848	7,895,423	7,815,671
Long-term liabilities outstanding	6,761,976	6,990,384	7,107,012
Other liabilities	-0-	-0-	-0-
Deferred inflows	<u>401,574</u>	<u>275,145</u>	<u>282,825</u>
Total liabilities and deferred inflows	7,163,550	7,265,529	7,389,837
Net Position:			
Net Investment in Capital Assets	2,071,231	2,177,481	2,070,526
Restricted	1,430,328	1,217,940	924,083
Unrestricted	<u>(2,675,261)</u>	<u>(2,765,527)</u>	<u>(2,568,775)</u>
Total net position	\$ 826,298	\$ 629,894	\$ 425,834

Governmental activities. Governmental activities increased (decreased) the Kenmare Public School District's net position by \$196,404.

**Kenmare Public School District's Changes in Net Position
As of June 30, 2019, 2018, and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
<u>Program Revenues:</u>			
Charges for Services	\$ 274,757	\$ 218,829	\$ 321,419
Operating Grants and Contributions	407,325	280,631	224,658
Capital Grants and Contributions	-0-	-0-	-0-
<u>General Revenues:</u>			
Property Taxes	1,906,142	1,980,755	1,801,635
State Aid - Unrestricted	2,469,867	2,512,498	2,646,401
Other	293,701	250,527	302,486
Total Revenues	<u>5,351,792</u>	<u>5,243,240</u>	<u>5,296,599</u>
Expenses			
Instruction	2,984,102	3,138,729	3,137,044
Support Services	1,823,297	1,632,324	1,766,124
Co-curricular Activities	173,340	171,148	177,296
Depreciation - Unallocated	174,649	176,979	180,335
Total Expenses	<u>5,155,388</u>	<u>5,119,180</u>	<u>5,260,799</u>
Net Change in Position	196,404	124,060	35,800
Prior Period Adjustment			80,000
Beginning Net Position	<u>629,894</u>	<u>505,834</u>	<u>390,034</u>
Ending Net Position	\$ 826,298	\$ 629,894	\$ 505,834

Financial Analysis of the Government's Funds

As noted earlier, the Kenmare Public School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Kenmare Public School District's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Kenmare Public School Districts financing requirements. In particular, *unassigned* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Kenmare Public School District's governmental funds reported combined ending fund balances of \$2,540,698, an increase (decrease) of \$415,310 in comparison with the prior year.

The general fund is the chief operating fund of the Kenmare Public School District. At the end of the current fiscal year, unassigned fund of the general fund was \$1,110,370 while total fund balance totaled \$1,110,370. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 25% of the total general fund expenditures, while total fund balance represents 25% of that same amount.

The fund balance of the Kenmare Public School District's general fund increased (decreased) by \$202,922 during the current fiscal year. The Kenmare Public School District budgeted an anticipated increase (decrease) in fund balance of \$(133,694).

General Fund Budgetary Highlights

During the year, revenues were greater than (less than) budgetary estimates by \$91,220, expenditures were (greater than) less than budgetary estimates by \$243,396, other financing sources and uses were greater than (less than) budgetary estimates by \$2,000, and ending fund balance exceeded (was less than) budgetary estimates by \$336,616.

During the prior year revenues were greater than (less than) budgetary estimates by \$47,191, expenditures were (greater than) less than budgetary estimates by \$221,787, other financing sources and uses were greater than (less than) budgetary estimates by \$-0-, and ending fund balance exceeded (was less than) budgetary estimates by \$268,978.

Capital Assets

As of June 30, 2019, the Kenmare Public School District had \$4,496,231 invested in capital assets.

Kenmare Public School District's Capital Assets

(net of depreciation)

Government activities

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Buildings and Improvements	\$ 3,870,630	\$ 3,997,500
Equipment	236,210	257,689
Vehicles	<u>389,391</u>	<u>347,292</u>
Total	\$ 4,496,231	\$ 4,602,481

Additional information on the Kenmare Public School District's capital assets can be found in note 4 on page 22-23 of this report.

Long-Term Debt. At the end of the current fiscal year, the Kenmare Public School District had \$6,761,976 of debt outstanding.

Kenmare Public School District Outstanding Debt

Governmental Activities

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Bonds Payable	\$ 2,425,000	\$ 2,425,000
Net Pension Liability	4,336,976	4,565,384

Additional information on the Kenmare Public School District Long Term Debt can be found on note 5 on pages 23-24 of this report.

For The Future

The Kenmare Public School District has benefited from an adequate property tax base. The School District has also benefited from continued funding from the State of North Dakota. These elements have enabled the District to meet many of its staffing and building maintenance needs.

The Kenmare Public School District, not unlike many rural districts in North Dakota, is experiencing declining enrollment. With sharing of services and other cost efficiencies the District has maintained a financially stable condition.

Requests for Information

This financial report is designed to provide a general overview of the Kenmare Public School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Manager, PO Box 667, Kenmare Public School District, Kenmare, ND 58746.

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Primary Government</u> <u>Governmental Activities</u> <u>2019</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES:	
Cash and Cash Equivalents	\$ 1,888,585
Investments	550,000
Taxes Receivable	151,733
Due from Other Governments	89,529
Capital Assets:	
Land, Improvements and Construction in Progress	
Other Capital Assets, Net of Depreciation	4,496,231
Deferred Outflow of Resources	813,770

TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 7,989,848
	=====
 LIABILITIES AND DEFERRED INFLOW OF RESOURCES:	
Accounts Payable	\$ -0-
Noncurrent Liabilities:	
Due in Less than One Year	-0-
Due in More than One Year	2,425,000
Net Pension Liability	4,336,976
Deferred Inflow of Resources	401,574

TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	7,163,550

 NET POSITION:	
Net Investment in Capital Assets	2,071,231
Restricted for:	
Food Service	9,792
Special Reserve	180,759
Capital Outlay	789,777
Debt Service	450,000
Unrestricted (Deficit)	(2,675,261)

TOTAL NET POSITION	826,298

TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 7,989,848
	=====

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
 KENMARE, NORTH DAKOTA

STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Primary Government:					
Governmental Activities:					
Instruction	\$ (2,984,102)		\$ 348,676		\$ (2,635,426)
Support Services	(1,823,297)	\$ 274,757	58,649		(1,489,891)
Co-curricular Activities	(173,340)				(173,340)
Depreciation-unallocated	(174,649)				(174,649)
Total Primary Government	<u>(5,155,388)</u>	<u>274,757</u>	<u>407,325</u>	<u>-0-</u>	<u>(4,473,306)</u>
			General Revenues:		
			Property Taxes		1,906,142
			Revenue from State Sources:		
			State Foundation Aid		2,469,867
			Mineral Resources		123,736
			Other General Revenues		169,965
			Total General Revenues		<u>4,669,710</u>
			Change in Net Position		196,404
			Net Position - Beginning		629,894
			NET POSITION - ENDING		<u>\$ 826,298</u>

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

<u>ASSETS:</u>	<u>GENERAL FUND</u>	<u>FOOD SERVICE FUND</u>	<u>SPECIAL RESERVE FUND</u>	<u>BUILDING FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS 2019</u>
Cash and Cash Equivalents	\$ 912,831	\$ 7,481	\$ 180,467	\$ 787,806	\$ 1,888,585
Investments	100,000			450,000	550,000
Taxes Receivable	118,880		4,238	28,615	151,733
Due From Other Governments	87,218	2,311			89,529
TOTAL ASSETS	<u>\$ 1,218,929</u>	<u>\$ 9,792</u>	<u>\$ 184,705</u>	<u>\$ 1,266,421</u>	<u>\$ 2,679,847</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES</u>					
<u>Liabilities:</u>					
<u>Deferred Inflows of Resources:</u>					
Uncollected Taxes	\$ 108,559		\$ 3,946	\$ 26,644	\$ 139,149
Total Liabilities and Deferred Inflow of Resources	<u>108,559</u>	<u>-0-</u>	<u>3,946</u>	<u>26,644</u>	<u>139,149</u>
 <u>Fund Balances:</u>					
Fund Balances:					
Restricted for Debt Service				450,000	450,000
Restricted for Food Service		9,792			9,792
Restricted for Special Reserve			180,759		180,759
Restricted for Capital Projects				789,777	789,777
Unassigned	1,110,370				1,110,370
Total Fund Balances	<u>1,110,370</u>	<u>9,792</u>	<u>180,759</u>	<u>1,239,777</u>	<u>2,540,698</u>
 TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	<u>\$ 1,218,929</u>	<u>\$ 9,792</u>	<u>\$ 184,705</u>	<u>\$ 1,266,421</u>	<u>\$ 2,679,847</u>

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>2019</u>
Total Fund Balances - Governmental Funds	\$ 2,540,698 -----
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,496,231 -----
Assets such as Deferred Outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	813,770 -----
Liabilities such as Deferred Inflows are not due and payable in the current period and therefore are not reported in the funds.	(401,574) -----
Net pension liability for the Teachers Fund for Retirement are not due and payable in the current period and therefore are not reported in the funds.	(4,336,976) -----
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(2,425,000) -----
Assets such as taxes receivable and special assessment receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	139,149 -----
Net Position - Governmental Funds	\$ 826,298 =====

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>REVENUES</u>	<u>GENERAL FUND</u>	<u>FOOD SERVICE FUND</u>	<u>SPECIAL RESERVE FUND</u>	<u>BUILDING FUND</u>	<u>TOTAL FUNDS 2019</u>
Local Sources:					
Property Taxes	\$ 1,475,986		\$ 52,598	\$ 358,738	\$ 1,887,322
Charges for Services		\$ 96,695			96,695
Other Revenue	106,893		676	62,396	169,965
County Sources:					
Mineral Resources	123,736				123,736
State Sources:					
Grants-In-Aid: Unrestricted	2,469,867				2,469,867
Grants-In-Aid: Restricted	31,581	546			32,127
Federal Sources:					
Grants-In-Aid: Restricted Received Through DPI	317,095	58,103			375,198
Other Sources:					
Services Provided Another LEA	178,062				178,062
TOTAL REVENUES	4,703,220	155,344	53,274	421,134	5,332,972
<u>EXPENDITURES</u>					
Current:					
Regular Programs	2,184,956				2,184,956
Federal Programs	161,549				161,549
School Board	121,114				121,114
Executive Administration	92,666				92,666
Support Service - Business	67,299				67,299
Operation and Maintenance of Plant	489,711				489,711
Student Transportation	347,976				347,976
Services Provided Another LEA	331,216				331,216
Extracurricular Activities	173,340				173,340
Food Services	24,350	162,229			186,579
Tuition	947				947
Special Education	227,426				227,426
Vocational Education	277,748				277,748
Capital Outlay:					
Facilities Acquisition				202,487	202,487
Debt Service:					
Principal					-0-
Interest				52,648	52,648
TOTAL EXPENDITURES	4,500,298	162,229	-0-	255,135	4,917,662
Excess of Revenues Over (Under) Expenditures	202,922	(6,885)	53,274	165,999	415,310
<u>OTHER FINANCING SOURCES</u>					
Transfers In					-0-
Transfers Out					-0-
Net Changes in Fund Balances	202,922	(6,885)	53,274	165,999	415,310
Fund Balance - July 1	907,448	16,677	127,485	1,073,778	2,125,388
FUND BALANCE - JUNE 30	\$ 1,110,370	\$ 9,792	\$ 180,759	\$ 1,239,777	\$ 2,540,698

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 415,310 -----
Amounts reported for governmental activities in the statement of activities are 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. This is the amount by which capital outlays exceeded depreciation in the current period.	(106,250) -----
Government funds report deferred outflows as expenditures however, in the statement of activities these costs do not require the use or provide a source of financial resources.	(233,455) -----
Government funds report deferred inflows as revenue however, in the statement of activities these inflows do not require the use or provide a source of financial resources.	(126,429) -----
Reduction or Increase of the Net Pension Liability does not require the use or provide a source of financial resources.	228,408 -----
Governmental funds report debt retirement as expenditures however, in the statement of activities this cash outlay is not an expenditure but a reduction to a liability on the statement of net position.	-0- -----
Revenue from property taxes is deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when levied in the government-wide financial statements.	18,820 -----
Change in Net Position of Governmental Activities	\$ 196,404 =====

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2019

	AGENCY FUND
	<u>2019</u>
ASSETS:	
Cash	\$ 90,996
Investments	23,598
TOTAL ASSETS	<u>\$ 114,594</u>
LIABILITIES:	
Amounts Held For Student Groups	\$ 89,384
Amounts Held For Scholarships	25,210
TOTAL LIABILITIES	<u>\$ 114,594</u>

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

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

The School Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the School District (the primary government) and its component units. A component unit would be included in the School District's reporting entity because of the significance of their operational or financial relationship with the School District. The criteria established by GASB Statement No. 14 in determining financial accountability 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. The School District has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all the School District's nonfiduciary activities with most interfund activities removed. *Governmental Activities* include programs supported primarily by taxes, State foundation aid, grants, and other intergovernmental revenues. The School District has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information for governmental funds and fiduciary funds. Separate statements are presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The School District considers all governmental funds as major funds.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS:

General Fund - The general fund is the general operating fund of the school district. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital projects funds are used to account and report financial resources that are *restricted, committed, or assigned* to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are *restricted, committed, or assigned* to expenditure for principal and interest.

FIDUCIARY FUNDS:

Agency Funds - Agency funds are used to account for assets held by the school district as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Following is a list of the major funds:

<u>Fund</u>	<u>Brief Description</u>
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.
Food Service Fund	A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants.
Special Reserve Fund	A fund established to hold reserve funds.
Building Fund	A fund established to meet expenditures involving acquisition of plant and equipment and related costs. This fund is financed by property taxes.

C. Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. The school district considers property tax as available when they are collected. Property taxes collected within 60 days after year end are not material.

Revenues from local sources consist primarily of property taxes. Revenues received from the Department of Public Instruction are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

D. Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original 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 secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments to invest in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) certificates of deposit fully insured by the federal deposit insurance corporation or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the school's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The district's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

E. Capital Assets

Capital Assets include land, buildings, equipment, vehicles, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment for capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at actual or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during the construction of Governmental Activities capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows.

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	Straight-Line	-----
Buildings & Improvements	5,000	Straight-Line	50 years
Equipment	5,000	Straight-Line	10 years
Vehicles	5,000	Straight-Line	10 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in the governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

F. Compensated Absences

In accordance with the provisions of GASB Statement No, 16, a liability is not recorded for nonvesting accumulating rights to receive sick pay benefits.

G. Fund Balances

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact.

Restricted fund balances will exist when constraints are placed of those resources that are either externally imposed or imposed by law.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by the school board.

Assigned fund balances will be amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted, nor committed.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted, or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance except for a deficit fund balance in other funds.

H. Order of Fund Balance Spending Policy

The school district's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First nonspendable amounts are determined. Then restricted balances for specific purposes are determined. Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balances if the fund is in a deficit situation.

I. Prior Year Comparative Total Columns

Prior year total columns are financial data provided for analysis and comparative purposes only .

J. Prior Year Comparative Total Columns

Prior year total columns are financial data provided for analysis and comparative purposes only .

NOTE 2: DEPOSITS

At June 30, 2019 the School District had deposits of \$2,553,178.36. District deposits at balance sheet date were covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the entity or its agent in the entity's name (Category II assets). North Dakota statutes require the market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance. District deposits were adequately protected.

NOTE 3: TAXES RECEIVABLE

Taxes receivable consist of current taxes and delinquent uncollected taxes for the past three years as of June 30. No allowance has been established for uncollectible taxes receivable.

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

Property taxes are limited by state laws. All school tax levies are in compliance with state laws.

NOTE 4: CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2019, is as follows:

Capital Assets:	<u>7-01-18</u>	<u>Additions</u>	<u>Retirements</u>	<u>06-30-19</u>
Buildings & Improvements	\$ 6,943,541			\$ 6,943,541
Equipment	917,174	\$ 26,300		943,474
Vehicles	985,829	126,410	\$ 32,100	1,080,139
	-----	-----	-----	-----
Totals	8,846,544	152,710	32,100	8,967,154
	-----	-----	-----	-----
Less Accumulated Depreciation for:				
Buildings & Improvements	2,946,041	126,870		3,072,911
Equipment	659,485	47,779		707,264
Vehicles	638,537	84,311	32,100	690,748
	-----	-----	-----	-----
Totals	4,244,063	258,960	32,100	4,470,923
	-----	-----	-----	-----
Government Activity				
Net Capital Assets	\$ 4,602,481	\$ (106,250)	\$ -0-	\$ 4,496,231
	=====	=====	=====	=====

Depreciation was charged to functions as follows:

Governmental Activities:	<u>2019</u>	<u>2018</u>
Support Services	\$ 84,311	\$ 79,802
Depreciation - Unallocated	174,649	176,979
	-----	-----
Total Depreciation Expense - Governmental Activities	\$ 258,960	\$ 256,781
	=====	=====

NOTE 5: GENERAL LONG-TERM DEBT

The following is a summary of debt transactions of the school district for the year ended June 30, 2019:

	<u>BONDS PAYABLE</u>
Debt Payable July 1	\$ 2,425,000
Debt Issued	-0-
Debt Retired	-0-

Debt Payable June 30	\$ 2,425,000
	=====
Due within one year	\$ -0-
	=====

Debt payable at June 30, 2019 is comprised of the following individual issues:

QSCB BONDS PAYABLE

\$750,000 Taxable General Obligation School Building Fund Bonds Series 2010 for the remodeling of the school building. The bonds call for refundable interest from the U.S. Treasury at 5.35% and \$50,000 mandatory deposits with total maturity at June 30, 2025.

\$750,000

=====

BONDS PAYABLE

\$2,000,000 General Obligation School Building Bonds, Series 2015 for construction of a vocational education building. The bonds call for annual principal payments of \$75,000 to \$130,000 from August 1, 2016 through August 1, 2035 and interest at 2.0% to 3.6%.

\$1,675,000

=====

The annual requirements to amortize all debt outstanding as of June 30, 2019 are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	-0-	49,720	49,720
2021	85,000	48,870	133,870
2022	85,000	47,170	132,170
2023	90,000	45,420	135,420
2024	90,000	43,620	133,620
2025	845,000	41,295	886,295
2026	95,000	38,445	133,445
2027	100,000	35,520	135,520
2028	100,000	32,520	132,520
2029	105,000	29,445	134,445
2030	105,000	26,295	131,295
2031	110,000	23,070	133,070
2032	115,000	19,465	134,465
2033	120,000	15,470	135,470
2034	125,000	11,305	136,305
2035	125,000	6,930	131,930
2036	130,000	2,340	132,340
TOTAL	\$ 2,425,000	\$ 516,900	\$ 2,941,900

The school district is in compliance with all bond covenants.

NOTE 6: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent amounts reported for uncollected taxes receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes receivable are measurable but not available.

NOTE 7: EMPLOYEE RETIREMENT SYSTEMS

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 fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about North Dakota Teachers' Fund for Retirement

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

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

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has the 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 funded members on or after July 1, 2008.

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.

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.

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 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% when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions 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.

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

At June 30, 2019, the Employer reported a liability of \$3,543,891 (from Exhibit E Column 2 in TFFR GASB Report) for its proportionate share of the 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2018 the Employer's proportion was .265887%, (from Exhibit E, Column 1 in TFFR GASB Report) which was an increase or (decrease) of (.003642) from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 the Employer recognized pension expense of \$264,474 (from Exhibit E, Column 13 of TFFR GASB Report). At June 30, 2019 the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Exhibit E, Columns 14-22 of TFFR GASB Report with the exception of employer contributions subsequent to the measurement date):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 9,618	\$ 96,384
Changes of assumptions	195,227	-0-
Net difference between projected and actual earnings on pension plan investments	-0-	12,252
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,087	181,496
Employer contributions subsequent to the measurement date (see below)	223,200	-0-
Total	\$ 456,132	\$ 290,132

\$223,200 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Exhibit E, Columns 23-28 of TFFR GASB Report - years will need to be rolled forward one year from the dates in the report):

Year ended June 30:	
2020	\$ 67,209
2021	17,669
2022	(69,242)
2023	(39,964)
2024	(15,669)
Thereafter	(17,202)

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%-14.5%, 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.

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net 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 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%	6.7%
Global Fixed Income	23%	1.5%
Global Real Assets	18%	5.1%
Cash Equivalents	1%	0.0%

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent 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 member 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 Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate: (from Exhibit E, Columns 4-6 TFFR GASB Report)

Current Discount
1% Decrease(6.75%) Rate (7.75%) 1% Increase (8.75%)

Employer's proportionate share of the net pension liability	\$4,785,278	\$3,543,891	\$2,511,442
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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 (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

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.

General Information about 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 seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, 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 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 of disabled is set by 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 covered compensation. Member contribution rates are 7% and employer contribution 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

At June 30, 2019 (employer's fiscal year end), the Employer reported a liability of \$759,795 (from Section E, Schedule of Net Pension Liability by Employer) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, (date of NDPERS GASB Report) and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018 (date of NDPERS GASB Report) the Employer's proportion was .045022 percent, (from Section E, Schedule of Net Pension Liability by Employer) which was an increase or (decrease) of (.006307) from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019 (employer's fiscal year-end) the Employer recognized pension expense of \$123,879 (from Section E, Schedule of Pension Amounts by Employer). At June 30, 2019 (employer's fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 2,012	\$ 25,850
Changes of assumptions	274,270	10,845
Net difference between projected and actual earnings on pension plan investments	-0-	3,696
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,843	65,506
Employer contributions subsequent to the measurement date (see below)	35,154	-0-
	-----	-----
Total	\$ 348,279	\$ 105,897
	=====	=====

\$35,154 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer). Years will need to be rolled forward one year from the dates in the report:

Year ended June 30:	
2019	\$ 76,737
2020	66,512
2021	48,486
2022	18,018
2023	(2,525)
Thereafter	-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	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%

Age*	
Under 30	10.00%
30 - 39	7.50%
40 - 49	6.75%
50-59	6.50%
60+	5.25%

*Age-based salary increase rates apply for employees with three or more years of service

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 with ages 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 set back 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 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%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate: (from Section E, Net Pension Liability Discount Rate Sensitivity by Employer)

	Current Discount		
	1% Decrease(5.32%)	Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net pension liability	\$1,032,421	\$759,795	\$532,298

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

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, and 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.

General Information about the OPEB Plan (NDPERS)

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 advanced -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 "refunded 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 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 and Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 (employer's fiscal year end), the Employer reported a liability of \$33,290 (from Section E, Schedule of Net OPEB Liability by Employer) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, (date of NDPERS GASB Report) and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of the covered payroll of all participating OPEB employers. At June 30, 2018, (date of NDPERS GASB Report) the Employer's proportion was .042269 percent, (from Section E, Schedule of Net OPEB Liability by Employer) which was an increase or (decrease) of (.006166) (employer will select increase or decrease and calculate change - not applicable for the first year of implementation) from its proportion measured as of June 30, 2017 (one year prior to date above).

For the year ended June 30, 2019 (employer's fiscal year-end) the Employer recognized OPEB expense of \$3,447 (from Section E, Schedule of Contributions by Employer). At June 30, 2019 (employer's fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 999	\$ 688
Changes of assumptions	2,731	-0-
Net difference between projected and actual earnings on OPEB plan investments	-0-	716

Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	4,141
Employer contributions subsequent to the measurement date (see below)	5,629	-0-
Total	\$ 9,359	\$ 5,545

\$5,629 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB's will be recognized in OPEB expense as follows (from Section E, Schedule of Net Deferred Outflows and Inflows by Year By Employer). Years will need to be rolled forward one year from dates in report):

Year ended June 30:	
2019	\$ (385)
2020	(385)
2021	(385)
2022	(69)
2023	(127)
Thereafter	(464)

Actuarial assumptions

The total OPEB liability in the July 1, 2017 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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 7.5%. 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 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 Employer'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: (from Section E, Net OPEB Liability Discount Rate Sensitivity by Employer)

	Current Discount		
	1% Decrease(6.5%)	Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$42,119	\$33,290	\$25,720

NOTE 8: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds established by the State for risk management issues:

The School District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the State Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed for the payment of claims to employees injured in the course of employment. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

During the mid-1980's, the School District was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions 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. All members paid an additional charge the first year they joined to help capitalize the NDIRF. In 1991, 1992, 1993, 1994, and 1995, the NDIRF returned 20% each year, for a total of 100%, of the capitalized amount with a premium reduction or cash payment to the School District. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

NOTE 9: INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2019 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ -0-
Building Fund	\$ -0-	
	-----	-----
Total	\$ -0-	\$ -0-
	=====	=====

Interfund transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is complete.

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>BUDGET BASIS ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
Local Sources	\$ 1,613,000	\$ 1,613,000	\$ 1,582,879	\$ (30,121)
County Sources	75,000	75,000	123,736	48,736
State Sources	2,624,000	2,624,000	2,501,448	(122,552)
Federal Sources	116,000	100,000	317,095	217,095
Other Sources	185,000	200,000	178,062	(21,938)
TOTAL REVENUES	<u>4,613,000</u>	<u>4,612,000</u>	<u>4,703,220</u>	<u>91,220</u>
 <u>EXPENDITURES</u>				
Current:				
Regular Programs	2,431,425	2,393,960	2,184,956	209,004
Federal Programs	112,081	169,043	161,549	7,494
School Board	114,400	114,400	121,114	(6,714)
Executive Administration	145,210	143,477	92,666	50,811
Support Service - Business	67,710	67,710	67,299	411
Operation and Maintenance of Plant	564,250	550,300	489,711	60,589
Student Transportation	297,760	297,760	347,976	(50,216)
Services Provided Another LEA	185,000	200,000	331,216	(131,216)
Extracurricular Activities	171,000	171,000	173,340	(2,340)
Food Service	9,060	9,060	24,350	(15,290)
Tuition	30,000	30,000	947	29,053
Special Education	262,468	262,468	227,426	35,042
Vocational Education	353,330	334,516	277,748	56,768
TOTAL EXPENDITURES	<u>4,743,694</u>	<u>4,743,694</u>	<u>4,500,298</u>	<u>243,396</u>
Excess of Revenues Over (Under) Expenditures	(130,694)	(131,694)	202,922	334,616
Transfer Out	(2,000)	(2,000)	-0-	2,000
Fund Balance - July 1	907,448	907,448	907,448	-0-
FUND BALANCE - JUNE 30	<u>\$ 774,754</u>	<u>\$ 773,754</u>	<u>\$ 1,110,370</u>	<u>\$ 336,616</u>

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

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*
June 30, 2019
(from Exhibit E and Exhibit 2 of TFFR GASB Report)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Employer's proportion of the net pension liability (asset). Exhibit E, Column 1	.265887%	.269529%	.266308%	.269469%	.293808%
2. Employer's proportionate share of the net pension liability (asset). Exhibit E, Column 2	\$3,543,891	\$3,702,046	\$3,901,568	\$3,524,264	\$3,078,587
3. Employer's covered-employee payroll. Exhibit E, Column 3	\$1,807,522	\$1,819,242	\$1,730,269	\$1,657,519	\$1,704,244
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	196.06%	203.49%	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability. Exhibit 2	65.5%	63.2%	59.2%	62.1%	66.6%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer Contributions
ND Teacher's Fund for Retirement
Last 10 Fiscal Years*
June 30, 2019
(from Exhibit E of TFFR GASB Report)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
1. Statutorily required contribution Exhibit E, Column 7	\$223,200	\$232,475	\$231,953	\$220,609	\$211,323	\$183,204
2. Contributions in relation to the statutorily required contribution Exhibit E, Column 8	\$(223,200)	\$(232,475)	\$(231,953)	\$(220,609)	\$(211,323)	\$(183,204)
3. Contribution deficiency (excess) Exhibit E, Column 9	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-	\$-0-
4. Employer's covered-employee payroll Exhibit E, Column 3	\$1,750,587	\$1,823,335	\$1,819,242	\$1,730,269	\$1,657,519	\$1,704,244
5. Contributions as a percentage of covered-employee payroll Exhibit E, Column 10	12.75%	12.75%	12.75%	12.75%	12.75%	10.75%

*Complete data for this schedule is not available prior to 2014.

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employee Retirement System
Last 10 Fiscal Years*
June 30, 2019
(from Section E Schedule of Net Pension Liability by Employer)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Employer's proportion of the net pension liability (asset).	.045022	.051329%	.054427%	.046954%	.042528%
2. Employer's proportionate share of the net pension liability (asset).	\$759,795	\$825,025	\$530,444	\$319,279	\$269,934
3. Employer's covered-employee payroll.	\$462,515	\$523,988	\$548,492	\$418,304	\$358,249
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3.	164.27%	157.45%	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability.	62.80%	61.98%	70.46%	77.70%	72.12%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2019

(from Section E, Schedule of Contributions by Employer)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Statutorily required contribution.	\$34,066	\$37,996	\$39,710	\$31,773	\$25,507
2. Contributions in relation to the statutorily required contribution.	\$(35,218)	\$(35,784)	\$(39,710)	\$(29,787)	\$(25,507)
3. Contribution deficiency (excess).	\$(1,152)	\$2,212	\$233	\$1,986	\$-0-
4. Employer's covered-employee payroll.	\$462,515	\$523,988	\$548,492	\$418,304	\$358,249
5. Contributions as a percentage of covered-employee payroll.	7.61%	6.83%	7.20%	7.60%	7.12%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2019
(from Section E, Schedule of Net OPEB Liability by Employer)

	<u>2019</u>	<u>2018</u>
1. Employer's proportion of the net OPEB liability (asset).	.042269%	.048435%
2. Employer's proportionate share of the net OPEB liability (asset).	\$33,290	\$38,313
3. Employer's covered-employee payroll.	\$462,515	\$523,988
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	7.20%	7.31%
5. Plan fiduciary net position as a percentage of the total pension liability. Section C	61.89%	59.78%

*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Kenmare Public School District No. 28
Kenmare, North Dakota

Schedule of Employer OPEB Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*
June 30, 2019

(from Section E, Schedule of OPEB Contributions by Employer)

	<u>2019</u>	<u>2018</u>
1. Statutorily required contribution.	\$5,425	\$6,091
2. Contributions in relation to the statutorily required contribution.	\$(5,639)	\$(5,730)
3. Contribution deficiency (excess).	\$(214)	\$361
4. Employer's covered-employee payroll.	\$462,515	\$523,988
5. Contributions as a percentage of covered-employee payroll.	1.22%	1.09%

*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

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

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

NOTE 2: CHANGES OF ASSUMPTIONS

The ND Teachers' Fund for Retirement amounts reported in 2016 and later reflect actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015. This includes changes to the investment return, inflation, salary scale, administrative expenses, turnover and retirement rates, and mortality tables.

The ND Public Employees Retirement System amounts reported in 2016 and later reflect actuarial assumption changes based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2019

<u>GENERAL FUND TYPE</u>	BALANCE <u>7-01-18</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	BALANCE <u>6-30-19</u>
General Fund	\$ 846,011.37	\$ 4,759,795.13	\$ 4,592,975.65	\$ 1,012,830.85
 <u>SPECIAL REVENUE FUND TYPE</u>				
Food Service Fund	16,676.74	153,033.19	162,229.09	7,480.84
Special Reserve Fund	126,856.22	53,610.54	-0-	180,466.76
 <u>CAPITAL PROJECTS FUND TYPE</u>				
Building Fund	1,069,577.35	423,363.26	255,135.10	1,237,805.51
 <u>AGENCY FUND TYPES</u>				
Student Activity Fund	105,969.41	208,159.68	224,745.12	89,383.97
Scholarship Fund	25,868.26	342.17	1,000.00	25,210.43
	-----	-----	-----	-----
 TOTAL ALL FUNDS	 \$ 2,190,959.35	 \$ 5,598,303.97	 \$ 5,236,084.96	 \$ 2,553,178.36
	=====	=====	=====	=====

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>FEDERAL GRANTOR\PASS-THROUGH GRANTOR\PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES 2019</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Public Instruction:			
Title I	84.010	F84010	\$ 133,468.19
Title IIA	84.367	F84367	16,428.99
Title IV	84.244	F84244	11,652.00
Passed Through State Department of Career And Technical Education: (Carl Perkins Grant) (Kenmare is the fiscal agent for a consortium of school districts and passes through each district's share of this money)	84.048	NONE	155,545.79
Total U. S. Department of Education			----- 317,094.97 -----
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Public Instruction:			
School Lunch Program	10.555	F10555	50,526.74
Fresh Fruits & Vegetables Program	10.582	F10568	7,575.91
Commodities	10.565	F10565	13,582.98
Total U. S. Department of Agriculture			----- 71,685.63 -----
TOTAL FEDERAL FINANCIAL ASSISTANCE			----- \$ 388,780.60 =====

KENMARE PUBLIC SCHOOL DISTRICT NO. 28
KENMARE, NORTH DAKOTA

SCHOOL DISTRICT OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2019

Jason Zeltinger	Board President
Amy Ones	Board Vice-President
Melissa Burud	Board Member
Lars Christensen	Board Member
Blaine Huff	Board Member
Tonya Kellenberger	Board Member
Andy Mau	Board Member
Duane Mueller	Superintendent
Mary Ann Melin	Business Manager