

**MINNEWAUKAN PUBLIC SCHOOL
DISTRICT NO. 5**

AUDIT REPORT

JUNE 30, 2019

Minnewaukan Public School District No. 5
Minnewaukan, North Dakota

TABLE OF CONTENTS
For The Year Ended June 30, 2019

	PAGE(S)
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2 – 4
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	5
Statement of Activities	6
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	7
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Fiduciary Net Position	11
<i>Notes to Basic Financial Statements</i>	12 – 29
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Employer's Share of Net Pension Liability – ND Teachers' Fund for Retirement	30
Schedule of Employer Contributions – ND Teachers' Fund for Retirement	30
Budgetary Comparison Schedule – General Fund	31
Notes to Required Supplementary Information	32
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
SUPPLEMENTARY REPORTS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35 – 36
Independent Auditor's Report on Compliance for Each Major Program and Report On Internal Control Over Compliance Required by The Uniform Guidance	37 – 39
Schedule of Findings and Questioned Costs	40 – 43

Minnewaukan Public School District No. 5
Minnewaukan, North Dakota
June 30, 2019

OFFICIALS

Kathy Lalum	Chairperson
Dave Ambers	Vice Chairperson
Anna Tice	Board Member
Michele Anderson	Board Member
Leona LaRoque	Board Member
Jean Cullahan	Superintendent
Tracie Volk	Business Manager

INDEPENDENT AUDITOR'S REPORT

Governing Board
Minnewaukan Public School District No. 5
Minnewaukan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minnewaukan Public School District No. 5, Minnewaukan, 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Minnewaukan Public School District No. 5, Minnewaukan, North Dakota as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 30 and the budgetary comparison information on page 31, and the notes to the required supplementary information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

INDEPENDENT AUDITOR'S REPORT

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnewaukan Public School District No. 5's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2021, on our consideration of Minnewaukan Public School District No. 5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnewaukan Public School District No. 5's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
July 16, 2021

Minnewaukan Public School District No. 5
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,167,271
Restricted Cash Equivalents	330,313
Due from County Treasurer	494
Taxes Receivable	18,548
Due from Other Funds	182,341
Due from Federal Governments	649,452
Due from Local Governments	11
Noncurrent Assets:	
Restricted Cash Equivalents	91,396
Capital Assets, Net	10,856,088
Total Assets	14,295,914
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pension	660,488
LIABILITIES	
Accounts Payable	26,963
Due to Other Funds	182,341
Premium on Bonds Payable, Net of Accumulated Amortization	34,844
Long-Term Liabilities:	
Portion Due or Payable within One Year	
General Obligation Bonds Payable	55,000
Portion Due or Payable after One Year	
Net Pension Liability	3,429,977
General Obligation Bonds Payable	1,675,000
Loan Payable, Net	3,778,000
Total Liabilities	9,182,125
DEFERRED INFLOWS OF RESOURCES	
Derived from Pension	426,248
NET POSITION	
Net Investment in Capital Assets	5,348,088
Restricted for:	
Debt Service	280,418
Capital Projects	379,303
Unrestricted	(659,780)
TOTAL NET POSITION	\$ 5,348,029

Minnewaukan Public School District No. 5
Statement of Activities
For the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Governmental Activities
Governmental Activities				
Regular Instruction	\$ 2,571,889	\$ 15,575	\$ 2,250	\$ (2,554,064)
Title Programs	677,518	-	668,165	(9,353)
Special Education	7,500	-	-	(7,500)
Vocational Education	108,348	-	-	(108,348)
Administration	427,311	-	-	(427,311)
Operations and Maintenance	452,875	-	-	(452,875)
Food Service	265,173	-	218,572	(46,601)
Transportation	438,996	-	144,060	(294,936)
Student Activities	97,223	-	28,255	(68,968)
Other Enterprise Services	76,853	-	-	(76,853)
Capital Outlay	97,474	-	-	(97,474)
Bond Issuance Costs	73,757	-	-	(73,757)
Interest & Fees on Long-Term Debt	228,960	-	-	(228,960)
Total Primary Government	\$ 5,523,877	\$ 15,575	\$ 1,061,302	(4,447,000)

General Revenues:

Taxes:	
Property Taxes, Levied for General Purpose	191,942
Property Taxes, Levied for Capital Projects	6,225
Local Aid	1,364
State Aid	2,488,206
Federal Aid	1,928,240
Earnings on Investments	4,081
Bond Premium	16,073
Miscellaneous Revenue	196,066
Interest	2,846
Gain (Loss) on Disposal of Assets	(85,455)
Total General Revenues	4,749,588
 Change in Net Position	 302,588
 Net Position - Beginning of Year	 5,045,441
Net Position - End of Year	\$ 5,348,029

Minnewaukan Public School District No. 5
Balance Sheet - Governmental Funds
June 30, 2019

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Food Service	Capital Projects	Debt Service		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 1,695,417	\$ 39,562	\$ 379,292	\$ -	\$ 53,000	\$ 2,167,271
Restricted Cash Equivalents	194,291	-	-	136,022	-	330,313
Due from County Treasurer	494	-	-	-	-	494
Taxes Receivable, Net	17,972	-	576	-	-	18,548
Due from Other Funds	77,341	105,000	-	-	-	182,341
Due from Federal Governments	649,452	-	-	-	-	649,452
Due from Local Governments	-	-	11	-	-	11
Total Current Assets	2,634,967	144,562	379,879	136,022	53,000	3,348,430
Noncurrent Assets:						
Restricted Cash Equivalents	-	-	-	91,396	-	91,396
TOTAL ASSETS	\$ 2,634,967	\$ 144,562	\$ 379,879	\$ 227,418	\$ 53,000	\$ 3,439,826
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 23,290	\$ 3,673	\$ -	\$ -	\$ -	\$ 26,963
Due to Other Funds	105,000	77,341	-	-	-	182,341
Total Liabilities	128,290	81,014	-	-	-	209,304
Deferred Inflows of Resources:						
Uncollected Taxes	17,972	-	576	-	-	18,548
Total Liabilities and Deferred Inflows of Resources	146,262	81,014	576	-	-	227,852
Fund Balances:						
Restricted for Debt Service	-	-	-	227,418	-	227,418
Committed	-	-	379,303	-	53,000	432,303
Assigned	-	63,548	-	-	-	63,548
Unassigned	2,488,705	-	-	-	-	2,488,705
Total Fund Balances	2,488,705	63,548	379,303	227,418	53,000	3,211,974
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,634,967	\$ 144,562	\$ 379,879	\$ 227,418	\$ 53,000	\$ 3,439,826

Minnewaukan Public School District No. 5
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
 For the year ended June 30, 2019

Total Fund Balances of Governmental Funds		\$ 3,211,974
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	\$ 12,933,734	
Less Accumulated Depreciation	<u>(2,077,646)</u>	
Net Capital Assets		10,856,088
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.		
		660,488
The net pension and OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.		
		(3,429,977)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		
		(426,248)
Premiums on bonds payable are treated as other financing sources in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized against interest expense over the life of the bonds).		
		(34,844)
Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.		
		18,548
Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2019 are:		
General Obligation Bonds Payable	(1,730,000)	
State School Construction Loan Payable	<u>(3,778,000)</u>	
Total Long-Term Liabilities		<u>(5,508,000)</u>
Total Net Position of Governmental Activities		<u>\$ 5,348,029</u>

Minnewaukan Public School District No. 5
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2019

Major Funds

	General	Food Service	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes & Revenue in Lieu	\$ 191,129	\$ -	\$ 6,180	\$ -	\$ -	\$ 197,309
Local Aid	-	1,364	-	-	-	1,364
State Aid	2,631,199	1,067	-	-	-	2,632,266
Federal Aid	2,626,910	218,572	-	-	-	2,845,482
Tuition & Charges for Services	15,575	-	-	-	-	15,575
Investment Earnings	4,081	-	-	-	-	4,081
Interest	-	-	-	2,846	-	2,846
Other Sources	131,802	-	64,264	-	-	196,066
TOTAL REVENUES	5,600,696	221,003	70,444	2,846	-	5,894,989
EXPENDITURES						
Current:						
Regular Instruction	2,276,465	-	-	-	-	2,276,465
Title Programs	677,518	-	-	-	-	677,518
Special Education	7,500	-	-	-	-	7,500
Vocational Education	108,348	-	-	-	-	108,348
Administration	427,311	-	-	-	-	427,311
Operation & Maintenance	452,875	-	-	-	-	452,875
Food Service	-	265,173	-	-	-	265,173
Transportation	438,996	-	-	-	-	438,996
Student Activities	101,771	-	-	-	-	101,771
Other Enterprise Services	76,853	-	-	-	-	76,853
Capital Outlay	-	-	97,474	-	-	97,474
Debt Service:						
Principal	-	-	-	105,000	-	105,000
Interest & Fees	64,640	-	-	165,764	-	230,404
TOTAL EXPENDITURES	4,632,277	265,173	97,474	270,764	-	5,265,688
Excess (Deficiency) of Revenues Over (Under) Expenditures	968,419	(44,170)	(27,030)	(267,918)	-	629,301
OTHER FINANCING SOURCES (USES)						
Sale of Refunding Bonds	-	-	-	815,000	-	815,000
Bond Premium (Discount)	-	-	-	16,073	-	16,073
Bond Refinancing Costs	-	-	-	(57,685)	-	(57,685)
Payment to Escrow for Refunding Debt	-	-	-	(1,085,000)	-	(1,085,000)
Transfers In (Out)	(421,764)	35,000	-	386,764	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(421,764)	35,000	-	75,152	-	(311,612)
NET CHANGE IN FUND BALANCES	546,655	(9,170)	(27,030)	(192,766)	-	317,689
Fund Balances - July 1, 2018	1,942,050	72,718	406,333	420,184	899,235	2,894,285
FUND BALANCES - JUNE 30, 2019	\$ 2,488,705	\$ 63,548	\$ 379,303	\$ 227,418	\$ 899,235	\$ 3,211,974

Minnewaukan Public School District No. 5
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 For the year ended June 30, 2019

Net change in fund balances - total governmental funds \$ 317,689

The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	\$ 125,679	
Current Year Depreciation Expense	(367,284)	(241,605)

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (49,271)

In the statement of activities, only the gain(loss) on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold. (85,455)

The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement but the repayment reduces long-term liabilities in the statement of net position. The amount of debt issued and repaid is:

Debt Proceeds	(815,000)	
Payment of Principal on Advanced Refunding	1,085,000	
Debt Repayment	105,000	
Premium on Bond Refinancing	(16,072)	
Amortization of Premium on Bond Payable	1,444	360,372

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes receivable. 858

Change in net position of governmental activities	\$ 302,588	

Minnewaukan Public School District No. 5
Statement of Fiduciary Net Position
June 30, 2019

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 30,406
Total Assets	<u>\$ 30,406</u>
LIABILITIES	
Liabilities:	
Due to Student Activities Groups	\$ 30,406
Total Liabilities	<u>\$ 30,406</u>

Minnewaukan Public School District No. 1
Notes to Basic 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 accounting principles generally accepted in the United States of America (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.

Financial Reporting Entity

The accompanying financial statements present the activities of the Minnewaukan Public School District No. 5. The school district has considered all potential component units for which the school district is financially accountable and other organizations for which the nature and significance of their relationships with the school district are such that exclusion would cause the school district's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the Minnewaukan Public School District No. 5 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, Minnewaukan Public School District No. 5.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from this unit is combined with data from the primary government. Based on these criteria, there are two blended component units to be included within the Minnewaukan Public School District No. 5 reporting entity. This blended component units are described below:

Minnewaukan Public School District Building Authority - the school board as a legally separate entity created the building authority in December 2012. Its purpose is to aid, assist and foster the planning, development, construction, renovation and improvement of school buildings, furnishing, fixtures and equipment and related facilities for the school district. The school board is the governing board of the building authority.

Minnewaukan School Improvements, LLC - this entity was created as part of the New Markets Tax Credit transaction that was entered into in December 2012 in order to help pay for the new school building. The entity is discussed in greater detail in Note 11.

Complete financial statements for these component units may be obtained by writing to: Tracie Volk, Minnewaukan Public School District, 4675 Highway 281 N, Minnewaukan, ND 58351.

Financial Statement Presentation

Government-side financial statements: The Statement of Net Position and the Statement of Activities display information about the primary government, Minnewaukan School District. These statements include the financial activities of the overall government, except fiduciary activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the school district's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

Fund Financial Statements: Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Any remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

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

Food Service Fund. The food service fund is used to account for financial resources to be used to provide meals to students.

Capital Projects Funds. This the school district's financial resources funds. It accounts for the acquisition, construction, maintenance and insurance of major facilities.

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

The school district reports the following fiduciary fund types:

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

Measurement focus and Basis of Accounting

Measurement focus is a term used to describe *how* transactions are recorded within the various financial statements and, include the economic resources measurement focus and the current financial resources measurement focus.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Economic resources measurement focus: The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. This measurement focus also requires capital asset acquisitions to be reported as expenditures and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to *when* the transactions are recorded, regardless of the measurement focus applied. The school district uses the accrual and the modified accrual bases of accounting, as discussed below.

Government-wide Financial Statements

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the school district considers revenue to be available if they are collected with 60 days after year-end. All revenues are considered to be susceptible to accrual.

Under the modified accrual basis of accounting, expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, differences exist from accrual accounting related primarily to payments involving long-term assets and liabilities. These differences were discussed above in the explanation of the current financial resources measurement focus.

Budgets

Based upon available financial information and requests by the school board, the business manager prepares the school district budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

School district taxes must be levied by the governing board on or before the fifteenth day of August. The taxes levied must be certified to the county August 25. The governing body of the school district may amend its tax levy and budget of the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. 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.

Cash, Cash Equivalents and Investments

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

State statutes authorize the school district to invest in:

- a. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured 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 by the state.
- d. Obligations of the state.

Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

Capital Assets

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

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

Buildings	7 to 50 years
Equipment	5 to 10 years
Vehicles	8 to 10 years
Improvements	15 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond discounts, premiums, and issuance costs are recognized in the current period.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Issuance costs are reported as debt service expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board – the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Assigned – This classification reflects the amounts constrained by the District’s “intent” to be used for special purposes, but are neither restricted nor committed. This is the residual classification for all governmental funds other than the general fund. As of June 30, 2019, the school board has not granted any official the right to assign amounts to a specific purpose.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the school district’s policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications–committed, assigned and then unassigned fund balances. The school district has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Deferred Inflows/Outflows of Resources

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes.

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 12 for additional information.

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 Teachers’ Fund for Retirement (TFFR) and additions to/deductions from TFFR fiduciary net position have been determined in the same bases 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 2 CASH AND CASH EQUIVALENTS

The school district's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the school district's agent in the school district's name.

Restricted Cash Equivalents:

Under the terms of the Series 201A Taxable Impact Aid Certificates of Indebtedness and Series 2012B Taxable Lease Revenue Bonds, separate accounts must be maintained related to construction, escrow of Impact Aid funds, and a reserve. These accounts consist of cash equivalents and are maintained at Wells Fargo Bank (the trustee). Additionally, cash is maintained at JP Morgan Chase Bank, N.A. related to the New Markets Tax Credit transaction (see Note 11). Balances restricted for debt service include the construction and escrow accounts. The amount restricted for the reserve was classified as noncurrent, as it is not expected to be used within one year.

Custodial and Concentration of Credit Risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the school district will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-E, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. As discussed above, the school district's deposits were adequately protected by insurance or collateral during the current fiscal year. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the school district.

Interest rate risk:

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the school district invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the school district's cash requirements.

NOTE 3 TAXES RECEIVABLE

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

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

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

NOTE 4 DUE FROM LOCAL SOURCES

The amount due from local sources consists primarily of amounts due for taxes collected but not remitted to the school district at June 30.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 5 DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of the final reimbursement claims for Title I, Title VI RLIS, and the 21st Century Community Learning Centers for the general fund and the National School Lunch and Breakfast and the summer food program for the special revenue fund.

NOTE 6 ACCOUNTS PAYABLE

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

NOTE 7 DUE FROM OTHER FUNDS

The amount due from the other funds consists of amounts due to the general fund from the special revenue fund for payroll taxes paid and amounts due to the special revenue fund from the general fund for staff meals per negotiated agreement.

NOTE 8 NEW MARKETS TAX CREDIT

During 2012, the Minnewaukan Public School District (school district) passed resolutions to participate in the New Market Tax Credits (NMTC) Program administered by the United States Treasury Department and the New Markets Tax Credit Coalition in order to obtain funding to build a new school. The NMTC program attracts capital to low income communities by providing private investors with a federal tax credit for investments made in businesses or economic development projects located in financially distressed communities. A NMTC investor receives a tax credit equal to 39 percent of the total Qualified Equity Investment (QEI) made in a Community Development Entity (CDE) and the Credit is realized over a seven-year period, 5 percent annually for the first three years and 6 percent in years four through seven. If an investor redeems a NMTC investment before the seven-year term has run its course, all Credits taken to date will be recaptured with interest. The legal structure and financing mechanisms specific to the school district are described below.

The following outside entities were parties to the NMTC transactions:

- The school district formed a Qualified Active Low-Income Community Business (QALICB), Minnewaukan School Improvements, LLC in order to facilitate the NMTC transaction. The school district is a 95% owner of the QALICB and the City of Minnewaukan is a 5% owner. The QALICB is a blended component unit, as defined in Note 1.
- Chase NMTC Minnewaukan School Improvement Fund, LLC (Investment Fund) is the investment fund.
- Chase Community Equity, LLC and Travois New Markets, LLC are the tax credit investors and own 99.99% and 0.01% of the Investment Fund, respectively.
- JP Morgan Chase Bank, N.A. was the bridge lender to the school district. The school district is the leverage lender.
- Travois New Markets Project CDE XIX, LLC (Travois CDE) and CNMC Sub-CDE 16, LLC (Chase CDE) are the CDEs. The Investment Fund is the 99.9% owner of both CDEs.

The following transactions related to the NMTC:

- JP Morgan Chase Bank, N.A. loaned \$9,086,000 to the school district as a two day bridge loan.
- The school district, as lessor, signed a ground lease with the QALICB to lease the school property to the QALICB from 12/4/2012 through 12/4/2077 for a total of \$9,667,530. As partial payment pursuant to this lease, the QALICB paid JP Morgan Chase Bank, N.A. \$9,086,000 in order to extinguish the two day bridge loan owed by the school district.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 8 NEW MARKETS TAX CREDIT-CONTINUED

- The QALICB, as lessor, signed a lease with the school district to lease the school property covered by the ground lease discussed above back to the school district. The lease term was from 12/4/2012 through 12/4/2013, with an automatic annual extension through 12/4/2042. Annual lease payments (which are eliminated in the school district's financial statements because the QALICB is a blended component unit) under this lease are as follows:
 - \$65,000 on December 1, 2013
 - \$80,000 on each December 1 from 2014 through 2019
 - \$135,000 on December 1, 2020
 - \$670,000 on each December 1 from 2021 through 2077
- The school district loaned the Investment Fund \$9,086,000. The loan requires interest only payments for seven years (through 12/15/2020), with interest at 0.7112%. Beginning 12/1/2021, the note requires annual installments of \$539,603 (which includes principal and interest) through its maturity date of 12/4/2042.
- Chase made an equity investment in the Investment Fund of \$4,118,400. The account set up fee was \$5,000.
- The resulting total funds invested in the Investment Fund was \$13,200,000 (\$9,086,000 plus \$4,118,400, less \$5,000 in fees).
- The Investment Fund distributed this money as follows:
 - \$11,200,000 qualified equity investment in Travois CDE
 - \$2,000,000 qualified equity investment in Chase CDE
- The Travois CDE paid \$336,000 in syndication fees to Travois New Markets, LLC, and loaned its remaining \$10,864,000 to the QALICB under two notes. The details are as follows:
 - Loan A1: \$7,709,842 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$392,151 (which includes principal and interest) through its maturity date of 12/5/2042.
 - Loan B1: \$3,154,158 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$160,432 (which includes principal and interest) through its maturity date of 12/5/2042.
- The Chase CDE loaned its \$2,000,000 to the QALICB under two notes. The details are as follows:
 - Loan A2: \$1,376,758 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$70,027 (which includes principal and interest) through its maturity date of 12/5/2042.
 - Loan B2: \$623,242 principal, interest only payments due annually through 12/5/2020, with interest at one percent per annum. Beginning 12/5/2021, the note requires annual installments of \$31,700 (which includes principal and interest) through its maturity date of 12/5/2042.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 8 NEW MARKETS TAX CREDIT-CONTINUED

Chase Community Equity, LLC has a put option allowing it to sell its 99.9% interest in the Investment Fund to the school district for \$1,000 (plus any taxes on the transfer) at the end of the seven year NMTC compliance period (December 5, 2020). If Chase Community Equity, LLC does not exercise its put option, the school district has a call allowing it to purchase the interest in the Investment Fund from them for fair market value.

If the option described above is exercised and the school district becomes the 99.9% owner of the Investment Fund (which is expected and customary), the school district would own the 99.9% interest in the Investment Fund, so the \$10,864,000 note payable to Travois CDE and \$2,000,000 note payable to Chase CDE Travois would be eliminated, as the Investment Fund is the 99.99% owner of both of the CDEs. In the same vein, the \$9,086,000 leverage loan owed to the school district by the Investment Fund would also be eliminated.

As discussed, it is expected that the put option will be exercised by Chase Community Equity, LLC (as is customary in New Markets Tax Credit Transactions) and no principal payments will be made under the loans discussed above. However, until the put option is exercised, the contract payable is recorded net in the school district's financial statements (\$10,864,000 and \$2,000,000 in loans from the Travois CDE and Chase CDE, respectively, to the QALICB, less \$9,086,000 leverage loan receivable from the Investment Fund). The net amount of \$3,778,000 has been recorded on the school district's Statement of Net Position, and is reflected in the principal and interest payment schedule in Note 11. The interest received under the leverage loan from the Investment Fund is recorded as revenue from other sources in the capital projects fund in the district's statement of revenues, expenditures and changes in fund balances and within earnings on investments and miscellaneous revenue on the statement of activities.

NOTE 9 CAPITAL ASSETS

Following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2019:

	June 30, 2018	Increases	Decreases	June 30, 2019
Capital assets not being depreciated				
Land	\$ 53,826	\$ -	\$ -	\$ 53,826
Total capital assets, not depreciated	53,826	-	-	53,826
Capital assets being depreciated				
Buildings	11,619,130	-	82,330	11,536,800
Equipment	565,890	35,106	109,630	491,366
Vehicles	835,787	90,573	74,618	851,742
Total capital assets, being depreciated	13,020,807	125,679	266,578	12,879,908
Less accumulated depreciation for				
Buildings	1,285,407	232,822	22,531	1,495,698
Equipment	338,891	48,437	104,190	283,138
Vehicles	267,187	86,025	54,402	298,810
Total accumulated depreciation	1,891,485	367,284	181,123	2,077,646
Total capital assets being depreciated, net	11,129,322	(241,605)	85,455	10,802,262
Total capital assets, net	\$ 11,183,148	\$ (241,605)	\$ 85,455	\$ 10,856,088

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 9 CAPITAL ASSETS-CONTINUED

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

Governmental Activities:	
Regular Programs	\$ 281,259
Transportation	86,025
Total Depreciation Expense	<u>\$ 367,284</u>

NOTE 10 LONG-TERM DEBT

Following is a summary of long-term debt activity for the year ended June 30, 2019:

	Balance 7/1/2018	Increase	Decrease	Balance 6/30/2019
Bonds Payable	\$ 2,105,000	\$ -	\$ 375,000	\$ 1,730,000
Contracts Payable, Net	3,778,000	-	-	3,778,000
	<u>\$ 5,883,000</u>	<u>\$ -</u>	<u>\$ 375,000</u>	<u>\$ 5,508,000</u>

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

Bonds Payable

\$815,000 refunding certificates of indebtedness, series 2019, issued on June 5, 2019, are due in annual installments of \$80,000 to \$100,000, including interest, through August 1, 2028; interest is 2.50%.	\$ 815,000
\$1,035,000 refunding certificates of indebtedness, series 2016, issued on December 20, 2016, are due in annual installments of \$50,000 to \$80,000, including interest, through August 1, 2032; interest ranges from 1.5% to 4%.	<u>915,000</u>
Total	\$ 1,730,000
Current Portion	(55,000)
Net Long-Term Portion	<u>\$ 1,675,000</u>

The net proceeds of \$1,035,000 refunding certificates of indebtedness, Series 2016 included a premium of \$23,103. During the current year, \$1,444 of the premium was amortized against interest expense in the Statement of Activities, resulting in an unamortized premium of \$18,771. The net proceeds of \$815,000 refunding certificates of indebtedness, Series 2019 also included a premium of \$16,073. In future years, \$1,786 of the premium will be amortized against interest expense in the Statement of Activities. Additionally, all of the above bonds terms mandate the establishment of a reserve fund with a balance equal to the lease of (i) 10% of the aggregate principal amount of the bonds, (ii) 125% of the average annual principal and interest due on the bonds, or (iii) 100% of the maximum annual debt service on the bonds. Refer to Note 2 for further discussion with respect to restricted cash and the terms of the bond.

NOTE 12 PENSION PLAN

1. 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 final authority for changes to benefit terms and contribution rates.

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

NOTE 12 PENSION PLAN-CONTINUED

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 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.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 12 PENSION PLAN-CONTINUED

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

At June 30, 2019, the District reported a liability of \$3,429,977 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the District's proportion was 0.25733996%, which was an increase of 0.02237925% from its proportion measures as of July 1, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$267,420. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,309	\$ 93,286
Changes of assumptions	188,951	-
Net difference between projected and actual earnings on pension plan investments	-	11,859
Changes in proportion and differences between employer contributions and proportionate share of contributions	244,077	321,103
Employer contributions subsequent to the measurement date (see below)	218,150	-
Total	\$ 660,487	\$ 426,248

\$218,150 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

	For the year ended June 30,
2020	\$ 76,496
2021	28,548
2022	(55,570)
2023	(40,862)
2024	(22,734)
Thereafter	30,213

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 12 PENSION PLAN-CONTINUED

Actuarial Assumptions

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

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

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2018, funding actuarial valuation for TFFR.

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 rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.7%
Global Fixed Income	23%	1.5%
Global Real Assets	18%	5.1%
Cash Equivalents	1%	0.0%

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 12 PENSION PLAN-CONTINUED

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 employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$ 4,631,461	\$ 3,429,977	\$ 2,430,715

Pension plan fiduciary net position

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

NOTE 13 RISK MANAGEMENT

The Minnewaukan Public School District No. 5 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Minnewaukan Public School District No. 5 pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile.

The Minnewaukan Public School District No. 5 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Minnewaukan Public School District No. 5 pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$1,243,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Minnewaukan Public School District No. 1
Notes to Basic Financial Statements
June 30, 2019

NOTE 13 RISK MANAGEMENT-CONTINUED

The Minnewaukan Public School District No. 5 has insurance with North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 14 TRANSFERS

For the fiscal year ended 2019, fund transfers consisted of the following:

	Funds	Transfers In	Transfers Out
<i>To help cover expenses</i>			
Food Service Fund		\$ 35,000	
General Fund			\$ 35,000
 <i>To pay lease expense</i>			
Debt Service Fund		386,764	
General Fund			386,764
Total		\$ 421,764	\$ 421,764

NOTE 15 FUND BALANCES

At June 30, 2019, a summary of the governmental fund balance classifications are as follows:

	General Fund	Food Service	Capital Projects	Special Reserve	Debt Service	Total
Restricted						
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 227,418	\$ 227,418
Special Reserve	-	-	-	53,000	-	53,000
Capital Projects	-	-	379,303	-	-	379,303
Committed						
Food Service	-	63,548	-	-	-	63,548
Unassigned	2,488,705	-	-	-	-	2,488,705
	\$ 2,488,705	\$ 63,548	\$ 379,303	\$ 53,000	\$ 227,418	\$ 3,211,974

***REQUIRED
SUPPLEMENTARY INFORMATION***

Minnewaukan Public School District No. 5
 Required Supplementary Information
 For the Year Ended June 30, 2019

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

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.25733996%	0.23496100%	0.26305300%	0.262879%	0.278205%
Employer's proportionate share of the net pension liability (asset)	\$ 3,429,977	\$ 3,227,246	\$ 3,853,876	\$ 3,438,077	\$ 2,915,095
Employer's covered payroll	\$ 1,749,421	\$ 1,585,917	\$ 1,709,119	\$ 1,616,981	\$ 1,613,737
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	196.06%	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	65.5%	63.2%	59.2%	62.1%	66.6%

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

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

	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 218,150	\$ 202,205	\$ 217,913	\$ 206,155	\$ 173,475
Contributions in relation to the statutorily required contribution	\$ (218,150)	\$ (202,205)	\$ (217,913)	\$ (206,155)	\$ (173,475)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 1,710,976	\$ 1,585,917	\$ 1,709,119	\$ 1,616,981	\$ 1,613,737
Contributions as a percentage of covered payroll	12.75%	12.75%	12.75%	12.75%	10.75%

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

Data reported is measured as of 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

Minnewaukan Public School District No. 5
 Budgetary Comparison Schedule
 General Fund
 For the year ended June 30, 2019

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes & Revenue in Lieu	\$ 188,751	\$ 188,751	\$ 191,129	\$ 2,378
State Aid	2,884,009	2,884,009	2,631,199	(252,810)
Federal Aid	2,001,041	2,001,041	2,626,910	625,869
Tuition & Charges for Services	20,000	20,000	15,575	(4,425)
Investment Earnings	100	100	4,081	3,981
Other Sources	185,450	185,450	131,802	(53,648)
TOTAL REVENUES	5,279,351	5,279,351	5,600,696	321,345
EXPENDITURES				
Current:				
Regular Instruction	2,618,826	2,618,826	2,276,465	342,361
Title Programs	789,113	793,596	677,518	116,078
Special Education	215,000	215,000	7,500	207,500
Vocational Education	94,655	94,655	108,348	(13,693)
District Wide Services	10,000	10,000	-	10,000
Administration	533,581	533,581	427,311	106,270
Operation & Maintenance	400,472	400,472	452,875	(52,403)
Food Service	35,000	35,000	-	35,000
Transportation	399,984	399,984	438,996	(39,012)
Student Activities	100,055	100,055	101,771	(1,716)
Other Enterprise Services	81,236	81,236	76,853	4,383
Capital Outlay	-	-	-	-
Debt Service:				
Principal	200,000	200,000	-	200,000
Interest	-	-	64,640	(64,640)
TOTAL EXPENDITURES	5,477,922	5,482,405	4,632,277	850,128
Excess (Deficiency) of Revenues Over (Under) Expenditures	(198,571)	(203,054)	968,419	1,171,473
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	-	-	(421,764)	(421,764)
Total Other Financing Sources (Uses)	-	-	(421,764)	(421,764)
NET CHANGE IN FUND BALANCES	(198,571)	(203,054)	546,655	749,709
Fund Balances - July 1, 2018	1,942,050	1,942,050	1,942,050	-
FUND BALANCES - JUNE 30, 2019	\$ 1,743,479	\$ 1,738,996	\$ 2,488,705	\$ 749,709

Minnewaukan Public School District No. 5
Notes to Required Supplementary Information
June 30, 2019

NOTE 1 CHANGES OF ASSUMPTIONS – ND TEACHERS’ FUND FOR RETIREMENT

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District adopts an annual budget consistent with the modified accrual basis of accounting for the general fund. The school district does not prepare a budget for the special revenue fund, capital projects fund, or debt service fund, as state law does not require a budget for those funds. The following procedures are used 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 August 15 each year.
- The taxes levied must be certified to the county auditor by August 25.
- 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.
- The balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

Minnewaukan Public School District No. 5
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
<u>Passed through State Department of Public Instruction:</u>			
<u>Child Nutrition Cluster</u>			
School Breakfast Program	10.553	F10553	\$ 61,268
National School Lunch Program	10.555	F10555	135,465
National School Lunch Program - Commodity Assistance	10.555	N/A	<u>13,986</u>
			210,719
SAE Food Nutrition	10.560A	F10560	810
Fresh Fruit and Vegetable Program	10.582	F10568	<u>7,043</u>
Total U.S. Department of Agriculture			218,572
<u>U.S. DEPARTMENT OF THE INTERIOR:</u>			
<u>Passed through Spirit Lake Indian Tribe:</u>			
Indian Education Assistance to School - Johnson-O'Malley	15.130	N/A	<u>28,255</u>
Total U.S. Department of the Interior			<u>28,255</u>
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
<u>Direct Assistance</u>			
Impact Aid	84.041B	N/A	1,915,792
<u>Passed through State Department of Public Instruction:</u>			
<u>Title I, Part A Cluster</u>			
Title I - Grants to Local Education Agencies	84.010	F84010	490,597
Title I - Program Improvement	84.010	F84010	116,369
Title IV - 21st Century	84.287	F84287	2,250
Title VI Rural Low Income Schools	84.358	F84358	12,448
<u>Passed through the North Central Education Cooperative:</u>			
21st Century Community Learning Centers	84.287	N/A	<u>61,199</u>
Total U.S. Department of Education			<u>2,598,655</u>
Total Expenditures of Federal Awards			<u>\$ 2,845,482</u>

Minnewaukan Public School District No. 5
Notes to Schedule of Expenditures of Federal Awards
For the Year Ending June 30, 2019

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Minnewaukan Public School District No. 5 received nonmonetary federal assistance in the form of food commodities during the year ended June 30, 2019. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 225, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

E. Elections

The District has not elected to use the 10 percent de minimis indirect cost rate.

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*

Governing Board
Minnewaukan Public School District No. 5
Minnewaukan, 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 the major fund of Minnewaukan Public School District No. 5, Minnewaukan, 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 and have issued our report thereon dated July 16, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnewaukan Public School District No. 5'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 Minnewaukan Public School District No. 5's internal control. Accordingly, we do not express an opinion on the effectiveness of Minnewaukan Public School District No. 5's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 that we consider to be material weaknesses.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Minnewaukan Public School District No. 5's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnewaukan Public School District No. 5's Response to Findings

Minnewaukan Public School District No. 5's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Minnewaukan Public School District No. 5's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
July 16, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Minnewaukan Public School District No. 5
Minnewaukan, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Minnewaukan Public School District No. 5, Minnewaukan, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mandan Public School District No. 1's major federal programs for the year ended June 30, 2019. Minnewaukan Public School District No. 5's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Minnewaukan Public School District No. 5's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Minnewaukan Public School District No. 5's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Minnewaukan Public School District No. 5's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Opinion on Each Major Federal Program

In our opinion, Minnewaukan Public School District No. 5 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Minnewaukan Public School District No. 5, Minnewaukan, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Minnewaukan Public School District No. 5's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Minnewaukan Public School District No. 5's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
July 16, 2021

Minnewaukan Public School District No. 5
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	Yes
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516 (a)?	No

Identification of major programs:

84.041B Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

Minnewaukan Public School District No. 5
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section II - Financial Statement Findings

2019-001 Segregation of Duties

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

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no one individual handles or has access to a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation –The most effective controls lie in the board's knowledge of matters relating to the organization's operations. Board members should periodically review documentation supporting individual transactions.

Client Response – The District is aware of the condition and have implemented controls such as reviews and approvals where feasible.

2019-002 Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the District's auditors.

Criteria – Management is responsible for the preparation and fair presentation of the financial statements in conformity with generally accepted accounting principles.

Cause – Limited time and resources of the District to prepare the financial statements in the format required by generally accepted accounting principles including compliance with GASB 34.

Effect – An increased risk of material misstatement in the District's financial statements.

Recommendation – The board should review the audited financial statements for accuracy and accept responsibility for the preparation and fair presentation of the GAAP financial statements even if the auditor assisted in drafting the financial statements and notes.

Client Response – The District is aware that someone needs to review the audit report each year to make sure the financial statements and note disclosures are a fair presentation for the District.

Minnewaukan Public School District No. 5
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

2019-003 Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements.

Criteria – The District is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – Staff did not correctly report tax revenues and receivables due to changes in staff in the accounting department and the transition to new software.

Effect – The financial statements would have been materially misstated if they were not corrected in the audit.

Recommendation – We recommend accounting staff closely review year-end adjustments and include documentation supporting the receivable balances in the accounting records.

Client Response – The District is aware of the adjustments and agrees with the adjustments. Accounting staff will try to correctly record these in the future.

Section III – Federal Award Findings

No matters were reported.

Section IV – Prior Audit Findings

2018-001 Segregation of Duties

Condition – Minnewaukan Public School District No. 5, Minnewaukan, North Dakota, has one business manager 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 District.

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 District's financial condition.

Recommendation – Due to the size of the District, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response – At the present time the Minnewaukan Public School District No. 5 has segregated the accounting duties in the most effective manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

Status of Finding – The finding is repeated in the current year. See 2019-001.

Minnewaukan Public School District No. 5
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

2018-002 Preparation of Financial Statements

Condition – The school district does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to assist in drafting the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria – A good system of internal accounting control contemplates a system designed to prepare financial statements in accordance with generally accepted accounting principles.

Effect – Inadequate controls over financial reporting of the school district result in the more than remote likelihood that the school district would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation – While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the school district and changes in reporting requirements.

Client Response – Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of Minnewaukan Public School District No. 5.

Status of Finding – The finding is repeated in the current year. See 2019-002.

Section V – Prior Audit Findings – Major Federal Award Programs Audit

Significant Deficiencies

The deficiencies described above as Findings 2018-001 and 2018-002 are significant deficiencies, although not material weaknesses, in internal control over major federal programs.