ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
ST. JOHN, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
JUNE 30, 2019

Bernie Belgarde	President
Rusty Cain	Vice-President
Amy Gourneau	Board Member
Alan Berginski	Board Member
Monti LaVallie	Board Member
Roxanne Allery (resigned April18, 2019)	Board Member
Paul Frydenlund	Superintendent
Mary Vandal	Business Manager

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
St. John Public School District No. 3
St. John, 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 St. John Public School District No. 3, 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.

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 St. John Public School District No. 3 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.

Emphasis of Matter

As discussed in Note 15, the District's beginning net position and fund balance were restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, schedule of District's contributions to the TFFR and NDPERS pension plans, schedule of District's contributions to the NDPERS OPEB plan, schedule of District's proportionate share of net pension liability, and schedule of District's proportionate share of net OPEB liability as listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The non-major governmental funds statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform*

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.

The non-major governmental fund statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the non-major governmental fund statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of school officials on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

March 25, 2020

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS		
Current Assets:		
Cash	$	2,264,266
Restricted Cash Equivalents		281,868
Prepaid Insurance		36,395
Property Taxes Receivable (Net)		29,379
Due from Local Sources		92,345
Due from State		917,149
Due from Federal		95,976
Total Current Assets		3,717,378
Non-Current Assets:		
Capital Assets		
Buildings		10,476,452
Equipment		1,483,886
Vehicles		1,108,703
Less Accumulated Depreciation		(7,373,191)
Total Non-Current Assets		5,695,850
TOTAL ASSETS		9,413,228
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan - TFFR		720,856
Cost Sharing Defined Benefit Pension Plan - NDPERS		582,929
Cost Sharing Defined Benefit OPEB Plan - NDPERS		15,575
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,319,360
LIABILITIES		
Current Liabilities:		
Accrued Payroll and Benefits		24,024
Interest Payable		13,803
Capital Leases Payable		64,901
Bonds Payable Within a Year		165,865
Total Current Liabilities		268,593
Long-Term Liabilities:		
Capital Leases Payable (Net of Current Portion)		134,275
Bonds Payable (Net of Current Portion)		2,269,825
Net OPEB Liability		53,826
Net Pension Liability		6,411,123
Total Non-Current Liabilities		8,869,049
TOTAL LIABILITIES		9,137,642
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan - TFFR		234,706
Cost Sharing Defined Benefit Pension Plan - NDPERS		111,937
Cost Sharing Defined Benefit OPEB Plan - NDPERS		4,412
TOTAL DEFERRED INFLOWS OF RESOURCES		351,055
NET POSITION		
Net Investment in Capital Assets		3,060,984
Restricted for:		
Debt Service		287,406
Building		713,036
Unrestricted		(2,817,535)
TOTAL NET POSITION	$	1,243,891

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES				
Business Support Services	$ 358,643	$ -	$ -	$ (358,643)
Instructional Support Services	247,691	-	-	(247,691)
Administration	568,070	-	-	(568,070)
Operations and Maintenance	792,028	-	-	(792,028)
Transportation	431,317	-	298,210	(133,107)
Regular Instruction	3,724,086	97,765	3,532,908	(93,413)
Special Education	288,769	-	-	(288,769)
Vocational Education	292,857	-	39,844	(253,013)
Extra-Curricular Activities	181,099	-	-	(181,099)
Food Services	399,646	70,792	379,396	50,542
Interest and Fees on Long-Term Debt	106,077	-	-	(106,077)
Loss on Disposal of Asset	20,296			(20,296)
TOTAL GOVERNMENTAL ACTIVITIES	$ 7,410,579	$ 168,557	$ 4,250,358	(2,991,664)
GENERAL REVENUES				
Property Taxes, Levied for General Purposes				244,330
Property Taxes, Levied for Capital Projects				23,795
Aids and Payments from the State				3,120,861
Unrestricted Investment Earnings				6,215
TOTAL GENERAL REVENUES				3,395,201
Change in Net Position				403,537
Net Position - Beginning				918,387
Prior Period Adjustment - See Note 15				(78,033)
Net Position - Beginning (Restated)				840,354
Net Position - Ending				$ 1,243,891

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Building Fund	Food Service Fund	Total Governmental Funds
ASSETS				
Cash	$ 1,466,765	$ 678,778	$ 118,723	$ 2,264,266
Restricted Cash Equivalents	281,868	-	-	281,868
Prepaid Insurance	36,395	-	-	36,395
Property Taxes Receivable (Net)	25,057	4,322	-	29,379
Due from Other Funds	-	29,936	-	29,936
Due from Local Sources	92,345	-	-	92,345
Due from State	917,149	-	-	917,149
Due from Federal	95,976	-	-	95,976
TOTAL ASSETS	$ 2,915,555	$ 713,036	$ 118,723	$ 3,747,314
LIABILITIES				
Accrued Payroll and Benefits	$ 24,024	$ -	$ -	$ 24,024
Due to Other Funds	29,936	-	-	29,936
TOTAL LIABILITIES	53,960	-	-	53,960
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Uncollected Taxes	19,341	3,551	-	22,892
TOTAL DEFERRED INFLOWS OF RESOURCES	19,341	3,551	-	22,892
FUND BALANCES				
Nonspendable - Prepaids	36,395	-	-	36,395
Restricted	281,868	709,485	-	991,353
Committed	-	-	118,723	118,723
Unassigned	2,523,991	-	-	2,523,991
TOTAL FUND BALANCES	2,842,254	709,485	118,723	3,670,462
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 2,915,555	$ 713,036	$ 118,723	$ 3,747,314

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balances - governmental funds		$ 3,670,462
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as net assets in government funds:		
Cost of capital assets	$ 13,069,041	
Less: accumulated depreciation	(7,373,191)	
Net		5,695,850
Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds.		968,305
Bond premiums that are amortized over the life of the debt issue		(13,852)
Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		22,892
Long-term liabilities are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds.		
Bonds Payable		(2,421,838)
Capital Leases Payable		(199,176)
Net OPEB Liability		(53,826)
Net Pension Liability		(6,411,123)
Interest payable is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(13,803)
Net Position - Governmental Activities		$ 1,243,891

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Building Fund	Food Service Fund	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 245,594	$ 26,034	$ -	$ 271,628
Other Local and County Revenues	97,765	-	70,792	168,557
Revenue from State Sources	3,419,071	-	3,040	3,422,111
Revenue from Federal Sources	3,507,140	65,612	376,356	3,949,108
Interest	5,940	-	275	6,215
TOTAL REVENUES	7,275,510	91,646	450,463	7,817,619
EXPENDITURES				
Current:				
Business Support Services	358,643	-	-	358,643
Instructional Support Services	247,691	-	-	247,691
Administration	568,070	-	-	568,070
Operations and Maintenance	726,875	65,153	-	792,028
Transportation	332,737	-	-	332,737
Regular Instruction	3,133,868	-	-	3,133,868
Special Education	288,769	-	-	288,769
Vocational Education	292,857	-	-	292,857
Extra-Curricular Activities	181,099	-	-	181,099
Food Services	-	-	399,646	399,646
Capital Outlay	317,538	-	-	317,538
Debt Service:				
Principal Retirement	226,500	10,757	-	237,257
Interest and Fiscal Charges on Long-Term Debt	92,814	526	-	93,340
TOTAL EXPENDITURES	6,767,461	76,436	399,646	7,243,543
Excess (Deficiency) of Revenues over Expenditures	508,049	15,210	50,817	574,076
OTHER FINANCING SOURCES (USES)				
Proceeds on Disposal of Capital Assets	13,700	-	-	13,700
Issuance of Capital Lease	181,790	-	-	181,790
Transfers Out	(400,000)	-	-	(400,000)
Transfers In	-	400,000	-	400,000
TOTAL OTHER FINANCING SOURCES (USES)	(204,510)	400,000	-	195,490
Net Change in Fund Balances	303,539	415,210	50,817	769,566
Fund Balance - Beginning of Year	2,616,748	294,275	67,906	2,978,929
Prior Period Adjustment - See Note 15	(78,033)	-	-	(78,033)
Fund Balance - Beginning of Year (Restated)	2,538,715	294,275	67,906	2,900,896
Fund Balance - End of Year	$ 2,842,254	$ 709,485	$ 118,723	$ 3,670,462

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3

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

Total net change in fund balances - Governmental Funds			$	769,566
Amounts reported for governmental activities in the statement of activities are different because:				
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense.				
Capital Outlays	$	317,538		
Depreciation Expense		(448,758)		
Excess of depreciation expense over capital outlay				(131,220)
Net Book Value on Disposal of Asset				(33,996)
Some revenues will not be collected for several months after the District's fiscal year end. These revenues are considered "available" revenues in the government funds. These revenues consist of:				
Net change in unavailable property taxes				(3,503)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.				237,257
Issuance of capital leases is recorded as an other financing source in the govermental funds, but the issuance increases long-term liabilities in the statement of net position.				(181,790)
Changes in deferred outflows and inflows of resources related to net pension liability				(387,200)
Change in net OPEB liability				3,313
Change in net pension liability				143,847
Amortization of premiums received from bond issuance				1,066
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.				(13,803)
Change in net position - Governmental Activities			$	403,537

See Notes to the Basic Financial Statements

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
JUNE 30, 2019

ASSETS	
Cash and Cash Equivalents	$ 114,468
TOTAL ASSETS	$ 114,468
LIABILITIES	
Due to Student Groups	$ 114,468
TOTAL LIABILITIES	$ 114,468

See Notes to the Basic Financial Statements

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The St. John Public School District operates the public school in the City of St. John, North Dakota.

Reporting Entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Blended component unites, although legally separate entities, are, in substance, part of the government's operations and so data from this unity is combined with data from the primary government

Based on these criteria, there is one blended component unit to be included within the St. John Public School District No. 3 reporting entity. The blended component unit is described below.

St. John Public School District Building Authority

The school board as a legally separate entity created the building authority on March 5, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

Basis of Presentation

The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the District as a whole.

The statement of net position presents the financial condition of the governmental activities of the District at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program and grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District.

The Government-wide financial statements do not include fiduciary funds of component units that are fiduciary in nature.

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds are as follows:

General Fund:
This fund is the general operating fund of the school district. It accounts for all financial resources except those requiring to be accounted for in another fund.

Building Fund:
This is the school district's financial resources fund. It accounts for the acquisition, construction, maintenance and insurance of major facilities.

The District's non-major governmental funds are as follows:

Special Revenue Fund:
This is the school district's hot lunch operating fund. It accounts for all financial resources related to food services.

Fiduciary Funds*:*

The District's only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the following:

> **Student Activity Fund:**
> The fund accounts for the financial transactions related to the District's student activity programs.

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred inflows and outflows of resources, and liabilities associated with the operation of the District are included in the statement of net position.

Fund Financial Statements:

The governmental funds are accounted for by using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the District's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Basis of Accounting:

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within

60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

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

Revenues - Exchange and Non-Exchange Transactions:

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the District.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

Unearned Revenues:

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, receivables that will not be collected during the availability period have been reported as unearned revenue.

Expenses and Expenditures:

Governmental funds accounting measurement focus is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded in the fiscal year in which the related fund liability is incurred. Under the accrual basis of accounting, expenses are recorded when incurred.

Budgets and Budgetary Accounting:

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget at the September board meeting to ensure it is adopted before the fifteenth of October each year. The budget is then filed with the county auditor by October tenth of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the District’s fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

The General fund expenditures were $36,244 budget for the year ended June 30, 2019.

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 2012 Leases 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 U.S. Bank, National Association (the trustee). Balances restricted for debt service (includes the construction and escrow accounts) totaled $49,637 and the balance restricted for the reserve was $232,231 as of June 30, 2019.

Investments:

North Dakota State Statute authorizes school districts to invest their surplus funds 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, instrumentality's, 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 of the state, d) Obligations of the state.

Fair Value Measurements:

The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	7 to 30 Years
Equipment	8 to 25 Years
Vehicles	3 to 15 Years
Improvements	20 to 30 Years

Accrued Liabilities and Long-term Obligations:

All payables, accrued liabilities and long-term obligations are reported in the District's government-wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and Teachers' Fund for Retirement (TFFR) and additions to/deductions from NDPERS and TFFR's fiduciary net position have been determined on the same basis as they are reported by NDPERS and 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.

Other Post-Employment Benefits (OPEB):

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 – prepaid items or 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 removes 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.
>
> *Assigned* – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.
>
> *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 both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

The District will strive to maintain a minimum unassigned general fund balance of not less than 10 percent and not more than 25 percent of the annual budget.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for 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 resource (expense/expenditure) until then. The District has two items reported on the statement of net position as *cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan*, which represents actuarial differences within the NDPERS and TFFR pension plans and NDPERS OPEB plan, as well as amounts paid to the plans after the measurement date.

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 a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items, one which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has two items reported on the statement of net position *as cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan*, which represents the actuarial differences within the NDPERS and TFFR pension plans and NDPERS OPEB plan.

Net Position:

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows or resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Inter-fund Activity:

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the District's governmental activities and its business-type activities, is eliminated in the statement of activities.

Extraordinary and Special Items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School Board and are either unusual in nature or infrequent in occurrence.

Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition - Property Taxes:

The taxes receivable represent the past three years of current and delinquent uncollected taxes at June 30, 2019. No allowance has been established for uncollectible taxes receivable.

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalty and interest are added March 15 if the first half-of-the taxes have not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the School District.

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, *Revenue Recognition - Property Taxes*. This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government-wide financial statements. Property taxes are limited by state laws. All School District tax levies are in compliance with state laws.

Significant Group Concentrations of Credit Risk:

As of June 30, 2019, the District's receivables consist of amounts due from other governmental units within the State of North Dakota.

NOTE 3 CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2019, the carrying amount of the District's deposits was $2,660,602 and the bank balance was $3,004,292. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

Interest Rate Risk

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 and to manage exposure to fair value losses arising from interest rate changes.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in general fixed assets account group during the year:

	Balance 7/1/2018	Additions	Disposals	Transfers	Balance 6/30/2019
Governmental Activities:					
Capital Assets Being Depreciated					
Buildings	$ 10,476,452	$ -	$ -	$ -	$10,476,452
Equipment	1,395,633	88,253	-	-	1,483,886
Vehicles	1,043,793	229,285	164,375	-	1,108,703
Total	12,915,878	317,538	164,375	-	13,069,041
Less Accumulated Depreciation					
Buildings	5,097,452	330,641	-	-	5,428,093
Equipment	1,295,569	19,537	-	-	1,315,106
Vehicles	661,791	98,580	130,379	-	629,992
Total	7,054,812	448,758	130,379	-	7,373,191
Net Capital Assets Being Depreciated	5,861,066	(131,220)	33,996	-	5,695,850
Net Capital Assets for Governmental Activities	$ 5,861,066	$(131,220)	$ 33,996	$ -	$ 5,695,850

In the governmental activities section of the statement of activities, depreciation expense was charged to the following governmental functions:

Regular Instruction	$ 350,178
Transportation	98,580
Total	$ 448,758

NOTE 5 LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2019.

	Balance 7/1/2018	Additions	Retirements	Other	Balance 6/30/2019
2001 General Obligation Building Fund Levy Bond	$ 32,595	$ -	$ 10,757	$ -	$ 21,838
Lease Revenue Bond, Series 2012	2,550,000	-	150,000	-	2,400,000
Capital Lease - Bus Lease	15,851	-	15,851	-	-
Midwest Leasing - Bus Lease	34,467	-	17,941	-	16,526
Bell State Bank & Trust - Bus Lease	43,568	-	13,575	-	29,993
United Lease and Finance, Inc. - Bus Lease	-	70,000	11,891	-	58,109
United Lease and Finance, Inc. - Bus Lease	-	111,790	17,242	-	94,548
Net OPEB Liability	57,139	-	-	(3,313)	53,826
Net Pension Liability	6,554,970	-	-	(143,847)	6,411,123
2012 Bond Premium	14,918	-	1,066		13,852
Total	$ 9,303,508	$ 181,790	$ 238,323	$ (147,160)	$ 9,099,815

All debt service payments are being made through the general and building funds.

Bonds Payable

General Obligation Building Fund Levy Bond of 2001 is due in annual installments of $11,083, including interest, through June1, 2021 at an interest rate of 1%.

Lease Revenue Bond, Series 2012, is due in annual installments ranging from $164,551 to $234,437, including interest, through May 1, 2032. The interest rate ranges from 2% to 3.5% and is paid semi-annually. Certain federal Impact Aid funds to be received by the school district have been pledged and assigned to secure the payment of principal and interest.

The net proceeds of the 2012 Lease Revenue Bond, Series 2012, included a premium of $21,311. During the current year, of the premium was amortized against interest expense in the Statement of Activities, resulting in the unamortized premium of $1,066 . Additionally, the 2012 Bonds' terms mandate the establishment of a reserve fund with a balance equal to the least of 1) 10% of the aggregate principal amount of the 2012 Bonds, 2) 125% of the average annual principal and interest due on the 2012 Bonds, or 3) 100% of the maximum annual debt service on the 2012 Bonds.

The annual requirements to amortize bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ 165,865	$ 79,656	$ 245,521
2021	165,973	74,898	240,871
2022	160,000	70,138	230,138
2023	165,000	65,338	230,338
2024	170,000	59,976	229,976
2025-2029	945,000	212,288	1,157,288
2030-2034	650,000	46,026	696,026
Total	$ 2,421,838	$ 608,320	$3,030,158

Capital Leases

A capital lease was established for buses, entered into October 30, 2014 due in monthly installments of $1,805, including interest at a rate of 3.35%, through June 15, 2019.

A capital lease was established with Midwest Leasing July 17, 2015, due in 45 monthly installments of $2,099, including interest at a rate of 3.35%, through May 15, 2020.

A capital lease was established with Bell State Bank and Trust August 19, 2016, due in 60 monthly installments of $1,244, including interest at a rate of 3.5%, through July 19, 2021.

A capital lease was established with United Lease and Finance, LLC August 22, 2018, due in 60 monthly installments of $1,302, including interest at a rate of 4.56%, through August 22, 2023.

A capital lease was established with United Lease and Finance, LLC September 4, 2018, due in 60 monthly installments of $2,084, including interest at a rate of 4.66%, through September 4, 2023.

The following is an analysis of the leased assets under capital leases included in vehicles:

Buses	$ 347,440
Less: Accumulated Depreciation	(90,020)
	$ 257,420

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2019:

Buses	$ 347,440
Less: Accumulated Depreciation	(90,020)
	$ 257,420

2020	$ 72,352
2021	55,560
2022	41,876
2023	40,632
2024	5,471
Total Minimum Lease Payments	215,891
Less Amount Representing Interest	(16,715)
Present Value of Minimum Lease Payments Under Capital Lease	$ 199,176

NOTE 6 FUND BALANCES

A. CLASSIFICATIONS

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

	General Fund	Building Fund	Food Service Fund	Total
Nonspendable - Prepaids	$ 36,395	$ -	$ -	$ 36,395
Restricted for:				
Debt Service	281,868	-	-	281,868
Building	-	709,485	-	709,485
Committed to:				
Food Service	-	-	118,723	118,723
Unassigned	2,523,991	-	-	2,523,991
	$ 2,842,254	$ 709,485	$ 118,723	$ 3,670,462

Restricted fund balances reflect resources restricted for statutorily defined purposes not accounted for in a separate fund. At June 30, 2019, there were the following accounts:

<u>Restricted for Debt Service:</u>
This account represents funds held by the School District available to service long-term debt.

Restricted for Building:
This account represents funds held by the School District available to provide future capital outlay.

Committed fund balances reflect resources that can be used only for the specific purposes determined by a formal action of the School District's Board of Education. At June 30, 2019, there were the following accounts:

Committed for Food Service:
This account represents funds held by the School District available to provide food service.

NOTE 7 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teacher's Fund for Retirement (TFFR) or the North Dakota Public Employee Retirement System (NDPERS), both of which are administered on a statewide basis.

Disclosures relating to these plans follow:

North Dakota Teacher's Fund For Retirement

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

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits.

The cost to administer the TFFR plan is financed by investment income and contributions.

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

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

At June 30, 2019, the District reported a liability of $5,182,643 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the Employer's proportion was 0.388837 percent which was an increase of 0.001187 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Employer recognized pension expense of $451,023. At June 30, 2019, the Employer 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 economic experience	$ 14,066	$ 140,954
Changes in actuarial assumptions	285,503	-
Difference between projected and actual investment earnings	-	17,918
Changes in proportion	66,208	75,834
Contributions paid to TFFR subsequent to the measurement date	355,079	-
Total	$ 720,856	$ 234,706

$355,079 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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:

Year ending June 30:	Pension Expense Amount
2020	$ 162,539
2021	90,090
2022	(37,010)
2023	(58,977)
2024	(12,190)
Thereafter	(13,381)

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, 2017, 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 Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58.00%	6.70%
Global Fixed Income	23.00%	1.50%
Global Real Assets	18.00%	5.10%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2018, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	$ 6,998,068	$ 5,182,643	$ 3,672,774

Pension Plan Fiduciary Net Position

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

<u>North Dakota Public Employees' Retirement System</u>

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary.

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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

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

At June 30, 2019, the District reported a liability of $1,228,478 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the District's proportion was 0.072794 percent which was a decrease of 0.003758 from its proportion measured July 1, 2017.

For the year ended June 30, 2019, the District recognized pension expense of $211,025. 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 economic experience	$ 3,252	$ 41,795
Changes in actuarial assumptions	443,455	17,534
Difference between projected and actual investment earnings	-	5,977
Changes in proportion	76,589	46,631
Contributions paid to NDPERS subsequent to the measurement date	59,633	-
Total	$ 582,929	$ 111,937

$59,633 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 ending 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:

Year ending June 30:	Pension Expense Amount
2020	$ 134,801
2021	118,646
2022	107,750
2023	49,362
2024	800

Actuarial Assumptions

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

Inflation	2.50%		
Salary increases	Service At Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%

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

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%
Cash Equivalents	0.00%	0.00%

Discount Rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	5.32%	6.32%	7.32%
School's proportionate share of the NDPERS net pension liability:	$ 1,669,273	$ 1,228,478	$ 860,649

Pension Plan Fiduciary Net Position

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

NOTE 8 DEFINED BENEFIT OPEB PLAN

Defined Benefit OPEB Plan

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

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

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund.

Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

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

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

At June 30, 2019, the District reported a liability of $53,826 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the District's proportion was 0.068344 percent which was a decrease of 0.003891 percent from its proportion measured as of July 1, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of $6,306. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,611	$ 1,112
Changes of assumptions	4,416	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,158
Changes in proportion and differences between employer contributions and proportionate share of contribution	-	2,142
District contributions subsequent to the measurement date	9,548	-
Total	$ 15,575	$ 4,412

$9,548 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

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

Year Ending June 30:		
2020	$	106
2021		106
2022		106
2023		617
2024		523
Thereafter		157

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap Domestic Equities	37.00%	7.15%
Small Cap Domestic Equities	9.00%	14.42%
International Equities	14.00%	8.83%
Core-Plus Fixed Income	40.00%	0.10%

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

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease in Discount Rate 6.50%	Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
District's proportionate share of the net OPEB liability	$ 68,102	$ 53,826	$ 41,587

Pension Plan Fiduciary Net Position

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

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses on one million dollars per occurrence.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund.

The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of $2,000,000 for its employees.

The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Worker's Compensation Bureau 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 10 CONTINGENT LIABILITIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 11 NON-MONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2019 was $20,879.

NOTE 12 TRANSFERS

The transfers as of June 30, 2019 consist of the following:

Transfers In	Transfers Out	Amount
Building Fund	General Fund	$ 400,000
		$ 400,000

The transfers between the General Fund and Building Fund were normal operating transfers to fund capital projects.

NOTE 13 EARLY RETIREMENT

The District has adopted an early retirement policy for teachers who are eligible to retire based on TFFR rules, who have completed fifteen years of total employment at the District and who have worked for the District for the five years immediately preceding the application for retirement. Teachers who choose to retire can receive a retirement payment made in equal payments over a period of two to three years. A teacher's payment is based on the individual's current contract at the time of application based on a starting reduction factor of 80%. If the individual applies for early retirement after their first year of eligibility, they will receive a reduced incentive amount.

NOTE 14 INTERFUND BALANCES

The District has the following interfund receivables and payables as of June 30, 2019:

	Interfund Receivable	Interfund Payable
General Fund	$ -	$ 29,936
Building Fund	29,936	-
	$ 29,936	$ 29,936

Interfund balances consist of expenditures paid on behalf of other funds as of June 30, 2019.

NOTE 15 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to decrease beginning net position and fund balance by $78,033 to properly reflect prepaid insurance and accrued salaries and benefits as of June 30, 2018.

NOTE 16 NEW PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the District's financial statements.

NOTE 17 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through March 25, 2020, the date which the financial statements were available to be issued.

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 172,647	$ 172,647	$ 245,594	$ 72,947
Other Local & County Revenues	121,500	121,500	97,765	(23,735)
Revenue From State Sources	3,327,510	3,327,510	3,419,071	91,561
Revenue From Federal Sources	2,927,777	2,927,777	3,507,140	579,363
Interest	4,000	4,000	5,940	1,940
TOTAL REVENUES	6,553,434	6,553,434	7,275,510	722,076
EXPENDITURES				
Business Support Services	309,477	309,477	358,643	49,166
Instructional Support Services	248,305	248,305	247,691	(614)
Administration	583,277	583,277	568,070	(15,207)
Operations and Maintenance	670,144	670,144	726,875	56,731
Transportation	365,629	365,629	332,737	(32,892)
Regular Instruction	3,559,121	3,559,121	3,133,868	(425,253)
Special Education	331,629	331,629	288,769	(42,860)
Vocational Education	255,937	255,937	292,857	36,920
Extra-Curricular Activities	160,358	160,358	181,099	20,741
Capital Outlay	-	-	317,538	317,538
Principal Retirement	277,828	277,828	226,500	(51,328)
Interest and Fiscal Charges on Long-Term Debt	42,000	42,000	92,814	50,814
TOTAL EXPENDITURES	6,803,705	6,803,705	6,767,461	(36,244)
Excess (Deficiency) of Revenues Over Expenditures	(250,271)	(250,271)	508,049	758,320
OTHER FINANCING SOURCES (USES)				
Proceeds From Disposal of Capital Asset	-	172,647	13,700	(158,947)
Issuance of Capital Lease	-	-	181,790	181,790
Transfers Out	-	-	(400,000)	(400,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	172,647	(204,510)	(377,157)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(250,271)	(77,624)	303,539	381,163
Fund Balances - Beginning	2,538,715	2,538,715	2,538,715	-
Fund Balances - Ending	$ 2,288,444	$ 2,461,091	$ 2,842,254	$ 381,163

See Notes to the Required Supplementary Information

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR AND NDPERS PENSION PLANS
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2019	$ 355,079	$ (355,079)	$ -	$ 2,784,935	12.75%
2018	333,611	(333,611)	-	2,643,349	12.62%
2017	317,732	(317,732)	-	2,616,553	12.14%
2016	309,705	(309,705)	-	2,492,018	12.43%
2015	244,046	(244,046)	-	2,429,174	10.05%

North Dakota Public Employees Retirement System

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2019	$ 59,633	$ (59,633)	$ -	$ 837,547	7.12%
2018	56,667	(54,695)	1,972	747,830	7.31%
2017	51,404	(47,528)	3,876	781,471	6.08%
2016	38,433	(41,033)	(2,600)	710,015	5.78%
2015	38,598	(38,598)	-	505,976	7.63%

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE NDPERS OPEB PLAN
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

North Dakota Public Employees Retirement System – OPEB

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered - Employee Payroll	Contributions as a Percentage of Covered - Employee Payroll
2019	$ 9,548	$ 9,548	$ -	$ 837,547	1.14%
2018	8,772	9,538	(766)	747,830	1.17%

The District implemented GASB Statement No. 75 for its fiscal year ended June 30, 2018. Information for prior years is not available.

See Notes to the Required Supplementary Information

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.388837%	$ 5,182,643	$ 2,643,349	196.06%	65.50%
2017	0.387650%	5,324,528	2,616,553	203.49%	63.20%
2016	0.383550%	5,619,229	2,492,018	225.49%	59.20%
2015	0.394920%	5,164,982	2,429,174	212.62%	62.10%
2014	0.391381%	4,100,979	2,270,215	180.64%	66.60%

North Dakota Public Employees Retirement System

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.072794%	$ 1,228,478	$ 747,830	164.27%	63.53%
2017	0.076552%	1,230,442	781,471	157.45%	61.98%
2016	0.070454%	686,643	710,015	96.71%	70.46%
2015	0.056795%	386,196	505,976	76.33%	77.15%
2014	0.065678%	416,872	569,727	73.17%	77.70%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

North Dakota Public Employees Retirement System – OPEB

For the Fiscal Year Ended June 30	District's proportion of the net OPEB liability (asset)	District's proportionate share of the net OPEB liability (asset)	District's covered - employee payroll	District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2018	0.0683%	$ 53,826	$ 747,830	7.20%	61.89%
2017	0.0722%	57,139	781,471	7.31%	59.78%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net OPEB liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 75 for its fiscal year ended June 30, 2018. Information for prior years is not available.

See Notes to the Required Supplementary Information

NOTE 1– BUDGETARY COMPARISON

Budgets and Budgetary Accounting:

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year, and the sum necessary to be provided as an interim fund, together with a tax sufficient in amount to pay the interest on the bonded debt of the District and to provide a sinking fund to pay and discharge the principal thereon at maturity. During the current year in the General Fund, budgeted expenditures exceeded actual expenditures by $36,244.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget before August tenth of each year. The budget is then filed with the county auditor by August tenth of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after August tenth of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

NOTE 2 – CHANGES OF ASSUMPTIONS

TFFR

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.

NDPERS

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

OPEB

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
St. John Public School District No. 3
St. John, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise St. John Public School District No. 3's basic financial statements and have issued our report thereon dated March 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. John Public School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the St. John Public School District No. 3'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-003.

The District's Response To Finding

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District'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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

March 25, 2020

BradyMartz

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

To the Board of Education
St. John Public School District No. 3
St. John, North Dakota

Report on Compliance for Each Major Federal Program

We have audited St. John Public School District No. 3's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on St. John Public School District No. 3's major federal program for the year ended June 30, 2019. The St. John Public School District's major federal program is 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 St. John Public School District No. 3's major federal program 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 non-compliance 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 the District'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 the major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, St. John Public School District No. 3 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of St. John Public School District No. 3 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in 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 the District'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.

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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

March 25, 2020

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

CFDA #	Description	Pass-Through Entity Identifying Number	Expenditures
Department of the Interior			
Passed Through North Central Education Cooperative			
	477 Cluster		
15.130	Indian Education Assistance to Schools		$ 16,325
	Total Cluster		16,325
	Total Department of Interior		16,325
United States Department of Education			
Direct Programs			
84.041B	Impact Aid		2,528,001
84.060	Indian Education Grants to Local Education Agencies		95,976
	Total Direct Programs		2,623,977
Passed Through the North Dakota Department of Public Instruction			
84.010	Title I Grants to Local Educational Agencies	F84010	728,839
84.287A	21st Century Community Learning Centers	F84287	2,514
84.358B	Rural Education	F84358	8,261
84.367	Title II Part A - Teacher and Principal Quality	F84367	61,236
84.424	Title IV Transferability	F84424A	91,755
	Total Passed through ND DPI		892,605
Passed Through North Dakota Department of Career Technical Education			
84.048	Career and Technical Education Grants to States		39,844
	Total Department of Education		3,556,426
Department of Agriculture			
Passed Through the North Dakota State Department of Public Instruction			
	Child Nutrition Cluster:		
10.553	School Breakfast Program	F10553	132,789
10.555	Child Nutrition - School Lunch	F10555	222,689
10.555	Food Distribution-Non Cash		20,879
	Total Cluster		376,357
	Total Department of Agriculture		376,357
	TOTAL		$ 3,949,108

See Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 - INDIRECT COST RATE

St. John Public School District No. 3 has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - NONMONETARY TRANSACTIONS

The District receives commodities through the food distribution program and the assistance is valued at the fair value of the commodities received and disbursed.

NOTE 4 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of St. John Public School District No. 3 under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of St. John Public School District No. 3, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE 5 - PASS-THROUGH ENTITIES

The District received money passed through from various grantor agencies. There were no pass-through numbers identified with some of these grants identified above.

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
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:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	x yes __ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__ yes x none reported
Non-compliance material to financial statements noted?	x yes __ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	__ yes x no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__ yes x none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__ yes x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program of Cluster
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	__ yes x no

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001 Finding

Criteria
To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

Condition
The District has one employee who is responsible for all accounting functions involved. The employee handles all cash, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Effect
Lack of segregation of duties leads to a limited degree of internal control.

Cause
Due to the relatively small size of the District's staff, it is generally not feasible to provide for complete adherence to the segregation of duties concept.

Recommendation
The District's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Management's Response
The St. John School District has segregated accounting duties in the most effective manner given its limited staff. Due to cost constraints, additional administrative employees will not be added. However, during school year 2019-20 a division of responsibilities will be made between current staff. The Assistant Business Manager, Stephanie Anderson, will be responsible for bank reconcilements. She will also be utilized as a backup for payroll input. Superintendent, Paul Frydenlund, will be responsible to review and sign off on all bank reconcilements. Administrative support staff will be responsible for invoice preparation and also some student activity fund accounting duties.

2019-002 Finding

Criteria
The District does not identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition
The District's auditors prepared the financial statements as of June 30, 2019. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of American (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Effect
The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to end users.

Cause
The District has not adopted an internal control policy over the annual financial reporting under generally accepted accounting principles (GAAP).

Recommendation
It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider the design of its internal control system and the changes required to permit the identification of journal entries required to maintain a general ledger and preparation of the financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Management's Response
Due to the financial, efficiency and time constraints, it has been determined by the District's management that it is in the best interest of the District to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

2019-003 Finding

Criteria
The District is required to follow North Dakota Century Code (N.D.C.C. 15.1-09-34) in regards to contracts involving the expenditure of an aggregate amount greater than fifty thousand dollars.

Condition
The District entered into two contracts for bus purchases in 2019 without obtaining bids.

Effect
The District did not comply with bid requirements under N.D.C.C. 15.1-09-34 for two contracts entered into during the year.

Cause
Management oversight.

Recommendation
It is recommended the District obtain the necessary bids for contracts involving the expenditure of an aggregate amount greater than fifty thousand dollars.

Management's Response
The District will adhere to North Dakota Century Code (N.D.C.C. 15.1-09-34) by obtaining the necessary bids for all potential contracts involving the expenditure of an aggregate amount greater than fifty thousand dollars.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings to be reported in this section.

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2018-001 Finding

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

Condition
The District has one business manager responsible for most accounting functions.

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
Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

Management's Response
At the present time the District 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.

Corrective Action Taken
None. See current year finding 2019-001.

ST. JOHN PUBLIC SCHOOL DISTRICT NO. 3
CORRECTIVE ACTION PLAN
JUNE 30, 2019

2019-001

Contact Person
Mary Vandal

Planned Corrective Action
The St. John School District has segregated accounting duties in the most effective manner given its limited staff. Due to cost constraints, additional administrative employees will not be added. However, during school year 2019-20 a division of responsibilities will be made between current staff. The Assistant Business Manager, Stephanie Anderson, will be responsible for bank reconcilements. She will also be utilized as a backup for payroll input. Superintendent, Paul Frydenlund, will be responsible to review and sign off on all bank reconcilements. Administrative support staff will be responsible for invoice preparation and also some student activity fund accounting duties.

Planned Completion Date
The planned completion date for the CAP is when it becomes cost-effective.

2019-002

Contact Person
Mary Vandal

Planned Corrective Action
Due to the financial, efficiency and time constraints, it has been determined by the District's management that it is in the best interest of the District to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

Planned Completion Date
The planned completion date for the CAP is when it becomes cost-effective.

2019-003

Contact Person
Mary Vandal

Planned Corrective Action
The District will adhere to North Dakota Century Code (N.D.C.C. 15.1-09-34) by obtaining the necessary bids for all potential contracts involving the expenditure of an aggregate amount greater than fifty thousand dollars.

Planned Completion Date
Immediately.