

***FESSENDEN-BOWDON PUBLIC
SCHOOL DISTRICT NO. 25***

AUDIT REPORT

JUNE 30, 2021

Fessenden-Bowdon Public School District No. 25
Fessenden, North Dakota

TABLE OF CONTENTS
For The Year Ended June 30, 2021

	PAGE(S)
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2 – 3
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	4
Statement of Activities	5
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
<i>Notes to Basic Financial Statements</i>	10 – 25
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of District's Share of Net Pension Liability – ND Teachers' Fund for Retirement	26
Schedule of District Contributions – ND Teachers' Fund for Retirement	26
Budgetary Comparison Schedule – General Fund	27
Notes to Required Supplementary Information	28
SUPPLEMENTARY REPORTS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 – 30
Schedule of Findings	31

Fessenden-Bowdon Public School District No. 25
Fessenden, North Dakota
June 30, 2021

OFFICIALS

Brittany Long	President
Monica Mason	Vice President
Troy Jones	Board Member
Miranda Kittelson	Board Member
Reade Neumiller	Board Member
D'Aulan Bussman	Superintendent
Michelle Johnson	Business Manager

INDEPENDENT AUDITOR'S REPORT

Governing Board
Fessenden-Bowdon Public School District No. 25
Fessenden, 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 Fessenden-Bowdon Public School District No. 25, Fessenden, North Dakota, as of and for the year ended June 30, 2021, 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 the Fessenden-Bowdon Public School District No. 25, Fessenden, North Dakota as of June 30, 2021, 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 14 to the financial statements, Fessenden-Bowdon Public School District No. 25 adopted new accounting guidance, GASB Statement No. 84, Fiduciary Activities. 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 District's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 26, the budgetary comparison information on page 27, and the notes to the required supplementary information on page 28 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of Fessenden-Bowdon Public School District No. 25's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fessenden-Bowdon Public School District No. 25's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
October 31, 2022

Fessenden-Bowdon Public School District No. 25

Statement of Net Position

June 30, 2021

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,846,972
Intergovernmental Receivable, Net	94,641
Due from County Treasurer	7,186
Taxes Receivable, Net	34,672
Capital Assets, Net	<u>3,645,051</u>
TOTAL ASSETS	5,628,522
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pension	490,180
LIABILITIES	
Accrued Salaries/Benefits Payable	817
Long-Term Liabilities	
Due Within One Year:	
US Bancorp Financing	180,012
Due After One Year:	
Net Pension Liability	2,490,376
US Bancorp Financing	1,220,804
Compensated Absences	<u>14,067</u>
Total Liabilities	3,906,076
DEFERRED INFLOWS OF RESOURCES	
Derived from Pension	106,989
NET POSITION	
Net Investment in Capital Assets	2,244,235
Restricted for:	
Capital Projects	469,877
Unrestricted	<u>(608,475)</u>
TOTAL NET POSITION	<u><u>\$ 2,105,637</u></u>

Fessenden-Bowdon Public School District No. 25
Statement of Activities
For the Year Ended June 30, 2021

		Program Revenues		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Functions/Programs				
Governmental Activities				
Regular Instruction	\$ 1,390,318	\$ -	\$ -	\$ (1,390,318)
Federal Programs	53,153	-	217,979	164,826
Special Education	246,012	-	-	(246,012)
Vocational Education	168,313	-	-	(168,313)
District Wide Services	280,393	-	-	(280,393)
Administration	396,206	-	-	(396,206)
Operations and Maintenance	431,976	-	-	(431,976)
Student Transportation	163,829	-	94,531	(69,298)
Student Activities	102,442	-	-	(102,442)
Co-Curricular Activities	82,027	-	102,799	20,772
Food Services	143,358	32,854	124,185	13,681
Adult Education/Community Services	15,704	-	-	(15,704)
Interest on Long-Term Debt	55,273	-	-	(55,273)
Total Primary Government	\$ 3,529,004	\$ 32,854	\$ 539,494	(2,956,656)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purpose				1,232,763
Property Taxes, Levied for Special Reserve				17,665
Property Taxes, Levied for Capital Projects				124,237
State Aid				1,692,712
Unrestricted Investment Earnings				2,965
Other Revenues				4,540
Total General Revenues				3,074,882
Change in Net Position				118,226
Net Position - Beginning of Year				1,820,777
Prior Period Adjustment (See Note 13)				166,634
Net Position - Beginning of Year, as Restated				1,987,411
Net Position - End of Year				\$ 2,105,637

Fessenden-Bowdon Public School District No. 25
Balance Sheet - Governmental Funds
June 30, 2021

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	Building		
ASSETS				
Cash and Cash Equivalents	\$ 1,063,880	\$ 469,120	\$ 313,972	\$ 1,846,972
Intergovernmental Receivable, Net	94,641	-	-	94,641
Due from County Treasurer	6,327	757	102	7,186
Taxes Receivable, Net	<u>30,914</u>	<u>3,303</u>	<u>455</u>	<u>34,672</u>
TOTAL ASSETS	<u>\$ 1,195,762</u>	<u>\$ 473,180</u>	<u>\$ 314,529</u>	<u>\$ 1,983,471</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accrued Salaries/Benefits Payable	<u>817</u>	<u>-</u>	<u>-</u>	<u>817</u>
Total Liabilities	<u>817</u>	<u>-</u>	<u>-</u>	<u>817</u>
Deferred Inflows of Resources:				
Unavailable Revenue	<u>30,914</u>	<u>3,303</u>	<u>455</u>	<u>34,672</u>
Total Liabilities and Deferred Inflows of Resources	<u>31,731</u>	<u>3,303</u>	<u>455</u>	<u>35,489</u>
Fund Balances:				
Committed	-	469,877	81,857	551,734
Assigned	-	-	232,217	232,217
Unassigned	<u>1,164,031</u>	<u>-</u>	<u>-</u>	<u>1,164,031</u>
Total Fund Balances	<u>1,164,031</u>	<u>469,877</u>	<u>314,074</u>	<u>1,947,982</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,195,762</u>	<u>\$ 473,180</u>	<u>\$ 314,529</u>	<u>\$ 1,983,471</u>

Fessenden-Bowdon Public School District No. 25
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
 For the Year Ended June 30, 2021

Total fund balances - governmental funds \$ 1,947,982

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Capital Assets	\$ 6,536,138	
Accumulated Depreciation	<u>(2,891,087)</u>	
Net Capital Assets		3,645,051

Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet. 490,180

The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet. (2,490,376)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (106,989)

Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenues in the funds. 34,672

Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated Absences Payable	(14,067)	
US Bancorp Financing	<u>(1,400,816)</u>	
Total Long-Term Liabilities		<u>(1,414,883)</u>

Net position of governmental activities \$ 2,105,637

Fessenden-Bowdon Public School District No. 25
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2021

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	Building		
REVENUES				
Property Taxes	\$ 1,252,693	\$ 127,007	\$ 17,971	\$ 1,397,671
Fees and Charges	4,540	-	32,854	37,394
State Aid	1,787,243	-	250	1,787,493
Federal Aid	217,979	-	123,935	341,914
Earnings on Investments	2,291	-	715	3,006
Co-Curricular Activities	-	-	<u>102,758</u>	<u>102,758</u>
TOTAL REVENUES	<u>3,264,746</u>	<u>127,007</u>	<u>278,483</u>	<u>3,670,236</u>
EXPENDITURES				
Current:				
Regular Education Programs	1,236,417	-	-	1,236,417
Title I	43,153	-	-	43,153
Title IV	10,000	-	-	10,000
Instructional Media Service	70,650	-	-	70,650
School Board	75,701	-	-	75,701
Executive Administration	82,763	-	-	82,763
Supportive Service - Business	167,092	-	-	167,092
Operation & Maintenance	311,094	-	-	311,094
Other Instruction	280,393	-	-	280,393
Student Activities	100,424	-	-	100,424
Student Transportation	175,747	-	-	175,747
Vocational Education	168,313	-	-	168,313
Special Education	246,012	-	-	246,012
Food Service	24,918	-	118,440	143,358
Adult Education/Community Services	15,704	-	-	15,704
Co-Curricular Activities	-	-	82,027	82,027
Debt Service:				
Principal	-	173,908	-	173,908
Interest	-	<u>55,273</u>	-	<u>55,273</u>
TOTAL EXPENDITURES	<u>3,008,381</u>	<u>229,181</u>	<u>200,467</u>	<u>3,438,029</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	256,365	(102,174)	78,016	232,207
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>(102,000)</u>	<u>120,000</u>	<u>(18,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(102,000)</u>	<u>120,000</u>	<u>(18,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	154,365	17,826	60,016	232,207
Fund Balances - July 1, 2020	1,009,666	452,051	87,424	1,549,141
Prior Period Adjustment (See Note 13)	<u>-</u>	<u>-</u>	<u>166,634</u>	<u>166,634</u>
Fund Balances - July 1, 2020 Restated	<u>1,009,666</u>	<u>452,051</u>	<u>254,058</u>	<u>1,715,775</u>
FUND BALANCES - JUNE 30, 2021	<u>\$ 1,164,031</u>	<u>\$ 469,877</u>	<u>\$ 314,074</u>	<u>\$ 1,947,982</u>

Fessenden-Bowdon Public School District No. 25
 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, 2021

Net change in fund balances - total governmental funds \$ 232,207

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

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

Current Year Capital Outlay	\$ 128,071	
Current Year Depreciation Expense	<u>(259,934)</u>	(131,863)

Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered "available" revenues in the governmental funds. Unavailable tax revenues decreased by this amount this year. (23,006)

Compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Compensated absences increased by this amount this year. (4,365)

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However, in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. (128,655)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Repayment of Debt		<u>173,908</u>
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Change in net position of governmental activities		<u>\$ 118,226</u>
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FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fessenden-Bowdon Public School District No. 25 complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the District's financial statements include all accounts of the District's operations. The criteria for including organizations as component units within the District's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is a fiscal dependency by the organization on the District

The District receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the District as a reporting entity and the District is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Currently, the District does not classify any activities as business-type.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The District has no proprietary activities at this time. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The District has presented the following major funds:

General Fund: The General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Building Fund: The building fund is used to account for taxes assessed and expended for building projects.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Interfund Transactions

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of governmental funds.

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditure in the fund that is reimbursed.

E. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balances is provided at year-end.

F. Cash, Cash Equivalents and Investments

Cash and cash equivalents consist of amounts in demand deposits, savings accounts, and certificates of deposit with a maturity of three months or less when purchased.

G. Inventory

A food inventory for the Food Service Fund is not recorded at year end because it is immaterial. School supplies are considered to be an expense in the year they are appropriated.

H. Capital Assets

Capital assets include buildings, vehicles, and equipment and are reported in the government-wide financial statements. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance that do not add to the value or materially extend asset life are recorded as expenses. Renewals and betterments are capitalized.

Capital assets are defined by the District as assets with an initial, individual cost of \$2,500 or more and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building and Building Improvements	40-50 years
Equipment and Vehicles	7-10 years
Office Equipment	5-7 years

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Compensated Absences

Fessenden-Bowdon Public School District No. 25 has adopted various policies regarding the accumulation of sick leave based on staff categories and full and part-time employment status. Upon termination, no compensation is paid to employees for accumulated sick leave. Earned vacation time is generally required to be used in the year earned. Teachers can accumulate up to 5 days with only 2 days carried over from year to year to be paid at \$140. Full time ancillary staff can accumulate up to 30 days of vacation to be paid out upon leaving the District. Teachers retiring with 15 years of service are eligible to be paid for their unused sick leave at the rate of \$30 per day.

J. Net Position

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

K. Fund Balance Classifications

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

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

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

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

Assigned – This classification reflects the amounts constrained by the District’s “intent” to be used for special 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.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

L. Deferred Inflows of Resources and Deferred Outflows of Resources

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

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 7 for additional information.

M. Pensions

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

NOTE 2 DEPOSITS – CASH AND INVESTMENTS

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 2 DEPOSITS - CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk

As of June 30, 2021, the District's carrying balances were \$1,659,566 for governmental funds and \$187,406 for agency funds.

The bank balance of these deposits as of June 30, 2021 was \$2,060,275. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$1,810,275 was collateralized with securities held by the pledging financial institutions' agent not in the District's name.

Credit Risk and Interest Rate Risk

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

- a. Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c. Certificates of deposit fully insured by the federal deposit insurance corporation.
- d. Obligations of the state.
- e. Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The District has no items reported at fair value.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 4 PROPERTY TAX

Under state law, the District is limited in its ability to levy property taxes. All school tax levies are in compliance with state laws. Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes has been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and remitted monthly to the school.

In its fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Taxes receivable consist of current and delinquent uncollected taxes at June 30. No allowance has been established for estimated uncollectible taxes because an offsetting deferred revenue has been recorded.

In the government-wide financial statements, property taxes are recorded as a receivable and revenue when assessed.

NOTE 5 CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2021:

	June 30, 2020	Increases	Decreases	June 30, 2021
Capital assets being depreciated				
Land	\$ 350	\$ -	\$ -	\$ 350
Building and Improvements	4,210,925	-	-	4,210,925
Equipment and Vehicles	2,235,259	128,071	38,467	2,324,863
Total capital assets, being depreciated	6,446,534	128,071	38,467	6,536,138
Less accumulated depreciation for				
Building and Improvements	1,115,460	108,870	-	1,224,330
Machinery and Equipment	1,554,160	151,064	38,467	1,666,757
Total accumulated depreciation	2,669,620	259,934	38,467	2,891,087
Total capital assets, net	\$ 3,776,914	\$ (131,863)	\$ -	\$ 3,645,051

Depreciation expense for the year ended June 30, 2021 was \$259,934 and is reported in the government-wide statement of activities. Depreciation charged to regular instruction is \$26,853, student transportation is \$32,783, operations & maintenance is \$198,280, and student activities is \$2,018.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt activity for the year ended June 30, 2021:

	Balance 6/30/20	Increases	Decreases	Balance 6/30/21	Due Within One Year
US Bancorp	\$ 1,574,724	\$ -	\$ (173,908)	\$ 1,400,816	\$ 180,012
Compensated Absences *	<u>9,702</u>	<u>4,365</u>	<u>-</u>	<u>14,067</u>	<u>-</u>
Total	<u>\$ 1,584,426</u>	<u>\$ 4,365</u>	<u>\$ (173,908)</u>	<u>\$ 1,414,883</u>	<u>\$ 180,012</u>

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Principal required for the bonds are as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 180,012	\$ 46,169
2023	186,331	42,850
2024	192,871	36,310
2025	199,641	29,540
2026	<u>641,961</u>	<u>45,583</u>
Total	<u>\$ 1,400,816</u>	<u>\$ 200,452</u>

Long-term debt payable includes the following issues:

\$1,905,049 US Bancorp; due in annual installments of \$229,181 through June 2028; interest at 3.51%.	<u>\$ 1,400,816</u>
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FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 7 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the government-wide financial statements as of June 30, 2021 are as follows:

Deferred Outflows of Resources	
Derived from pension - TFFR	<u>\$ 490,180</u>
Deferred Inflows of Resources	
Derived from pension - TFFR	<u>\$ 106,989</u>

Note 8 of the financial statements contain details of the pension plans.

Details of the Deferred Inflows of Resources on the face of the governmental fund financial statements as of June 30, 2021 are as follows:

Deferred Inflows of Resources	
Unavailable Revenue	<u>\$ 34,672</u>

NOTE 8 PENSION PLAN

1. North Dakota Teachers' Fund for Retirement

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

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

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

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 8 PENSION PLAN

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 must 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.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 8 PENSION PLAN

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 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, 2021, the District reported a liability of \$2,490,376 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2020, the District's proportion was 0.16271614%, which was an increase of 0.00367211% from its proportion measures as July 1, 2019.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 8 PENSION PLAN

For the year ended June 30, 2021, the District recognized pension expense of \$277,697. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 514	\$ 93,459
Changes of assumptions	112,089	-
Net difference between projected and actual earnings on pension plan investments	153,734	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	74,801	13,530
Employer contributions subsequent to the measurement date (see below)	149,042	-
Total	\$ 490,180	\$ 106,989

\$149,042 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

For the year ended June 30:		
2022	\$	60,714
2023		55,117
2024		55,489
2025		38,085
2026		10,403
Thereafter		14,340

Actuarial Assumptions

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary Increases	3.80% to 14.80% varying by service, including inflation and productivity
Investment rate of return	7.25%, net of investment expenses
Cost-of-living adjustments	None

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 8 PENSION PLAN

For active and inactive members, mortality rates were based on the PubT-2010 Employee table, projected with generational improvement using Scale MP-2019. For healthy retirees, mortality rates were based on 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019. For disability retirees, mortality rates were based on the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019.

The actuarial assumptions used were based on the results of an actuarial experience study dated March 19, 2020. They are the same as the assumptions used in the July 1, 2020, funding actuarial valuation for TFFR.

As a result of the March 19, 2020 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- Investment return assumption lowered from 7.75% to 7.25%.
- Inflation assumption lowered from 2.75% to 2.30%.
- Individual salary increases were lowered.
- Rates of turnover, retirement and disability were changed to better reflect anticipated future experience.
- The post-retirement healthy mortality table was updated to 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019.
- The disabled mortality table was updated to the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019.
- The pre-retirement mortality table was updated to the PubT-2010 Employee table projected with generational improvement using Scale MP-2019.

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.9%
Global Fixed Income	23%	1.3%
Global Real Assets	18%	5.0%
Cash Equivalents	1%	0.0%

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 8 PENSION PLAN

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent as of June 30, 2020. 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, 2020, 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 July 1, 2020. 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, 2020.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net pension liability	\$ 3,317,047	\$ 2,490,376	\$ 1,803,370

Pension plan fiduciary net position

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

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

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, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. All members paid an additional charge the first year they joined to help capitalize the NDRIF. In 1991 the NDRIF returned 20% of the capitalized amount with a premium reduction or cash payment to the District. The District pays an annual premium to NDRIF for its general insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 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 \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,100,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District continues to carry commercial insurance for all other risks of loss, including workers' compensation, North Dakota fire and tornado fund, and employee health and accident insurance. Any settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various school programs. These amounts consist of a mix of State and Federal dollars.

NOTE 11 EXPENSES IN EXCESS OF BUDGET

For the fiscal year ended June 30, 2021, the general fund expenditures were in excess of budget on several line items but as a whole, expenditures were under budget by \$49,374. No remedial action is anticipated.

NOTE 12 TAX ABATEMENTS

Fessenden-Bowdon Public School District No. 25 and political subdivisions within Wells County can negotiate property tax abatement agreements with individuals and various commercial entities/businesses. The school district will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs. No such abatements existed as of June 30, 2021.

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Notes to Basic Financial Statements
June 30, 2021

NOTE 13 PRIOR PERIOD ADJUSTMENTS

Fessenden-Bowdon Public School District No. 25 adopted new accounting guidance, GASB Statement No. 84, Fiduciary Activities during 2021. The result of implementing GASB 84 increased beginning net position for the District and beginning fund balance of the nonmajor funds by \$166,634.

Adjustments to beginning net position and fund balance are as follows:

	Governmental Activities Net Position	Nonmajor Funds Fund Balance
Net Position - Beginning of Year, as previously reported	\$ 1,820,777	\$ 87,424
Reclassification of Funds	166,634	166,634
Net Position - Beginning of Year, as restated	\$ 1,987,411	\$ 254,058

NOTE 14 FUTURE GASB PRONOUNCEMENTS

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-of-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 June 15, 2021.

***REQUIRED
SUPPLEMENTARY INFORMATION***

Fessenden-Bowdon Public School District No. 25
 Required Supplementary Information
 For the Year Ended June 30, 2021

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

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.16271614%	0.15904403%	0.15822226%	0.15993316%	0.15956168%	0.152800%	0.153494%
Employer's proportionate share of the net pension liability (asset)	\$ 2,490,376	\$ 2,190,439	\$ 2,108,879	\$ 2,196,723	\$ 2,337,672	\$ 1,998,403	\$ 1,608,345
Employer's covered payroll	\$ 1,187,276	\$ 1,115,739	\$ 1,075,610	\$ 1,079,503	\$ 1,036,712	\$ 939,878	\$ 890,345
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	209.76%	196.32%	196.06%	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.4%	65.5%	65.5%	63.2%	59.2%	62.1%	66.6%

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

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

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 149,042	\$ 151,378	\$ 142,257	\$ 137,140	\$ 137,637	\$ 132,181	\$ 119,834
Contributions in relation to the statutorily required contribution	\$ (149,042)	\$ (151,378)	\$ (142,257)	\$ (137,140)	\$ (137,637)	\$ (132,181)	\$ (119,834)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 1,168,957	\$ 1,187,276	\$ 1,115,739	\$ 1,075,610	\$ 1,079,503	\$ 1,036,712	\$ 939,878
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%

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

Data reported is measured as of 7/1/2020, 7/1/2019, 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015 and 7/1/2014.

Fessenden-Bowdon Public School District No. 25
 Budgetary Comparison Schedule
 General Fund
 For the year ended June 30, 2021

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
REVENUES				
Property Taxes	\$ 1,258,023	\$ 1,258,023	\$ 1,252,693	\$ (5,330)
Fees and Charges	6,000	6,000	4,540	(1,460)
State Aid	1,712,602	1,795,886	1,787,243	(8,643)
Federal Aid	63,289	217,979	217,979	-
Earnings on Investments	3,000	3,000	2,291	(709)
TOTAL REVENUES	<u>3,042,914</u>	<u>3,280,888</u>	<u>3,264,746</u>	<u>(16,142)</u>
EXPENDITURES				
Current:				
Regular Education Programs	1,203,148	1,223,148	1,236,417	(13,269)
Title I	43,153	43,153	43,153	-
Title IV	10,000	10,000	10,000	-
Instructional Media Service	76,845	76,845	70,650	6,195
School Board	69,000	69,000	75,701	(6,701)
Executive Administration	114,418	114,418	82,763	31,655
Supportive Service - Business	170,293	170,949	167,092	3,857
Operation & Maintenance	316,868	316,868	311,094	5,774
Other Instruction	193,059	193,059	280,393	(87,334)
Student Activities	125,298	125,298	100,424	24,874
Student Transportation	196,945	196,945	175,747	21,198
Vocational Education	178,429	178,429	168,313	10,116
Special Education	283,459	283,459	246,012	37,447
Food Service	10,765	10,765	24,918	(14,153)
Adult Education/Community Services	45,419	45,419	15,704	29,715
TOTAL EXPENDITURES	<u>3,037,099</u>	<u>3,057,755</u>	<u>3,008,381</u>	<u>49,374</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,815	223,133	256,365	33,232
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(60,000)	(60,000)	(102,000)	(42,000)
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u>(60,000)</u>	<u>(102,000)</u>	<u>(42,000)</u>
NET CHANGE IN FUND BALANCES	(54,185)	163,133	154,365	(8,768)
Fund Balances - July 1, 2020	<u>1,009,666</u>	<u>1,009,666</u>	<u>1,009,666</u>	<u>-</u>
FUND BALANCES - JUNE 30, 2021	<u>\$ 955,481</u>	<u>\$ 1,172,799</u>	<u>\$ 1,164,031</u>	<u>\$ (8,768)</u>

Fessenden-Bowdon Public School District No. 25
Notes to Required Supplementary Information
June 30, 2021

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

Amounts reported in 2021 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated March 19, 2020.

- Investment return assumption lowered from 7.75% to 7.25%.
- Inflation assumption lowered from 2.75% to 2.30%.
- Individual salary increases were lowered.
- Rates of turnover, retirement and disability were changed to better reflect anticipated future experience.
- The post-retirement healthy mortality table was updated to 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019.
- The disabled mortality table was updated to the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019.
- The pre-retirement mortality table was updated to the PubT-2010 Employee table projected with generational improvement using Scale MP-2019.

Amounts reported in 2016-2020 reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared and school district taxes must be levied on or before August 15 each year.
- The taxes levied must be certified to the county auditor by August 25.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- The balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

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

Governing Board
Fessenden Public School District No. 25
Fessenden, 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 Fessenden Public School District No. 25 as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Fessenden Public School District No. 25's basic financial statements and have issued our report thereon dated October 31, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fessenden Public School District No. 25'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 Fessenden Public School District No. 25's internal control. Accordingly, we do not express an opinion on the effectiveness of Fessenden Public School District No. 25's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider deficiencies 2021-001 and 2021-002 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fessenden Public School District No. 25's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fessenden Public School District No. 25's Response to Findings

Fessenden Public School District No. 25's responses to the findings identified in our audit are described in the accompanying schedule of findings. Fessenden Public School District No. 25's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
October 31, 2022

FESSENDEN-BOWDON PUBLIC SCHOOL DISTRICT NO. 25
Schedule of Findings
For the Year Ended June 30, 2021

2021-001 Segregation of Duties

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

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

Cause – There are limited individuals to perform tasks due to the small size of the entity.

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

Recommendation – Additional staff could be utilized to segregate the reconciling function from the recordkeeping function.

Management's Response – The District is aware of the limitations and will add controls where feasible.

2021-002 Preparation of Financial Statements

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

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

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

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

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

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