

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2021



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

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INDEPENDENT AUDITOR'S REPORT

School Board
Fort Yates Public School District No. 4
Fort Yates, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of **Fort Yates Public School District No. 4** (the District), Fort Yates, 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, and each major fund of the District, as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted management’s discussion and analysis, budgetary comparison schedules, and the schedule of the District’s share of net pension liability and the District’s contributions, 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.

Report on Supplementary 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 schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 24-25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2021 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 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 the District’s internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 24, 2021

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 903,496
Due from Other Governments (Note 3)	539,673
Inventory	4,510
Prepaid Expenses	13,675
Capital Assets (Note 4):	
Land	15,000
Buildings, Equipment, and Vehicles, Net of Depreciation	8,241,697
TOTAL ASSETS	9,718,051
<u>LIABILITIES</u>	
Accounts Payable	\$ 90,743
Accrued Expenses	213,756
Net Pension Liability (Note 7)	2,181,594
Long-Term Liabilities (Note 5):	
Due within One Year	455,084
Due in More than One Year	1,378,530
TOTAL LIABILITIES	4,319,707
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension Related Deferred Inflows of Resources (Note 7)	27,472
<u>NET POSITION</u>	
Net Investment in Capital Assets	6,445,323
Restricted for:	
Impact Aid - Construction	13,689
Transportation - State of North Dakota	5,211
Unrestricted	(1,093,351)
TOTAL NET POSITION	5,370,872
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	\$ 9,718,051

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<i>Governmental Activities:</i>				
Regular Programs	\$ 1,624,452	\$ -	\$ -	\$ (1,624,452)
Federal Programs	1,155,311	-	1,232,265	76,954
Special Education	747,150	-	372,593	(374,557)
District Wide Services	99,809	-	-	(99,809)
Administration	435,687	-	-	(435,687)
Operations and Maintenance	262,762	-	-	(262,762)
Transportation	153,669	-	108,241	(45,428)
Student Activities	13,239	-	-	(13,239)
Food Service	270,471	-	115,062	(155,409)
Interest on Long-Term Debt *	46,256	-	-	(46,256)
Total Governmental Activities	4,808,806	-	1,828,161	(2,980,645)
<i>General Revenues</i>				
Property Taxes				72,500
Unrestricted Revenue from Federal Sources				1,037,375
Unrestricted Revenue from State Sources				1,584,814
Interest				256
Miscellaneous Revenue				15,173
Total General Revenues				2,710,118
Change in Net Position				(270,527)
Net Position - Beginning				5,592,423
Prior Period Adjustment (Note 8)				48,976
Net Position -- Ending				\$ 5,370,872

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2021**

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 903,496	\$ 903,496
Due from Other Governments (Note 3)	539,673	539,673
Inventory	4,510	4,510
Prepaid Expenses	13,675	13,675
Total Assets	\$ 1,461,354	\$ 1,461,354
LIABILITIES		
Accounts Payable	\$ 90,743	\$ 90,743
Accrued Expenditures	191,506	191,506
Total Liabilities	282,249	282,249
FUND BALANCES		
Nonspendable:		
Inventory	4,510	4,510
Prepaid Expenses	13,675	13,675
Restricted:		
Impact Aid - Construction	13,689	13,689
Transportation - State of North Dakota Funding	5,211	5,211
Unassigned	1,142,020	1,142,020
Total Fund Balances	1,179,105	1,179,105
Total Liabilities and Fund Balances	\$ 1,461,354	\$ 1,461,354

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2021**

Total Fund Balances - Governmental Funds \$ 1,179,105

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. 8,256,697

Net pension liability reported in governmental activities is not an available financial resource and therefore is not reported in the funds. (2,181,594)

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds. (27,472)

Accrued Interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds. (22,250)

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported in the funds.

Accrued Leave (22,240)

Refunded Certificates of Indebtedness (1,811,374)

Net Position - Governmental Funds \$ **5,370,872**

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2021**

	General Fund	Total Governmental Funds
Revenues:		
Revenue from Local Sources:		
District Property Taxes	\$ 72,500	\$ 72,500
Earnings on Investments and Deposits	256	256
Other Revenue from Local Sources	14,278	14,278
Revenue from State Sources:		
Unrestricted State Revenue	1,584,814	1,584,814
Other Restricted State Revenues	349,825	349,825
Revenue from Federal Sources:		
Unrestricted Grants-in-Aid Received from Federal Government Through State	1,066,108	1,066,108
Restricted Grants-in-Aid Direct from Federal Government	35,183	35,183
Restricted Grants-in-Aid from Federal Government Pass-through	1,415,315	1,415,315
Total Revenues	4,538,279	4,538,279
Expenditures:		
Regular Programs	1,242,140	1,242,140
Federal Programs	1,155,311	1,155,311
Special Education	747,150	747,150
Administration	421,266	421,266
Operations and Maintenance	258,907	258,907
Food Service	269,684	269,684
Transportation	103,030	103,030
Capital Outlay (Note 4)	164,685	164,685
Student Activities	13,239	13,239
District Wide Services	99,809	99,809
Total Expenditures	4,475,221	4,475,221
Other Financing Uses		
Debt Service	(477,600)	(477,600)
Net Change in Fund Balance	(414,542)	(414,542)
Fund Balances -- Beginning	1,544,671	1,544,671
Prior Period Adjustment (Note 8)	48,976	48,976
Fund Balances -- Ending	\$ 1,179,105	\$ 1,179,105

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ (414,542)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense (306,156)
Capital Asset Purchases 164,685

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 427,844

Government funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts earned by employees are not recognized in the funds. In the Statement of Activities, expenses for compensated absences are recognized when the employees earn leave credits. (1,299)

Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. 3,500

Pension expenses in the Statement of Activities do not provide current financial resources and are not reported as expenses in the funds, and changes in pension related deferred inflows are direct components of pension liability and are not reflected in the governmental funds. (144,559)

Change in Net Position of Governmental Activities \$ (270,527)

The accompanying notes are an integral part of this statement.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of Fort Yates Public School District No. 4 (the District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Basis of Presentation

Government-Wide Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Net Position reports all financial and capital resources in a balance sheet form (assets equal liabilities plus net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental funds.

A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year-to-year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund – This is the District's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is always a major fund.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2021

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

Measurement focus is a term to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus and Basis of Accounting:

Government-wide Financial Statements:

In the government-wide financial statements, governmental activities are presented using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

Fund Financial Statements:

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Their revenues, including property taxes and grants, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

Deposits

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. As of June 30, 2021, the District's cash consisted of checking accounts. Various restrictions on deposits and investments are imposed by North Dakota statutes. These restrictions are summarized below:

Deposits must either be deposited with the Bank of North Dakota or in another financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the 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 body and bonds issued by another state of the United States or such other securities approved by the banking board.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future change in interest rates. The District's deposits consist of checking accounts; therefore no interest rate risk exists for the District at June 30, 2021.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(1) Summary of Significant Accounting Policies (Continued)

Deposits (Continued)

Credit Risk and Custodial Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is commonly expressed in terms of the credit quality rating issued by the Nationally Recognized Statistical Rating Organization (NRSO). Custodial credit risk is the risk that, in the event of depository failure, the District’s deposits may not be returned. As of June 30, 2021, all bank balances were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the pledging financial institution.

Capital Assets

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

Accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements:

All capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Depreciation of the reported exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) for buildings, equipment, and vehicles is \$5,000. The straight-line method of depreciation is used.

The estimated useful lives for significant capital assets are as follows:

	<u>Years</u>
Buildings	50
Furniture and Equipment	5-10
Vehicles	5

Fund Financial Statements:

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

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental sources are reported as liabilities in the government-wide statements. The long-term liabilities consist of refunding certificates of indebtedness and accrued leave.

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Funding for refunding certificates of indebtedness is expended in the general fund.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2021

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups, such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of restricted or net investment in capital assets.

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements:

The District classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority (School Board) and does not lapse at year-end. The District does not have any committed fund balance at June 30, 2021.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Business Manager. The District does not have any assigned fund balance at June 30, 2021.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2021

(1) Summary of Significant Accounting Policies (Concluded)

Program Revenues

In the government-wide Statement of Activities, reported program revenues are derived directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program. The District received no capital grants and contributions for the year ended June 30, 2021.

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. The net pension liability is recognized on an accrual basis of accounting (Note 7).

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has assessed subsequent events through November 24, 2021, the date which the financial statements were available to be issued.

(2) Property Taxes

Property taxes are levied on or before August 15. The taxes levied must be certified to the county auditor by August 25. The governing body of the School District may amend its tax levy for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the county auditor by October 10. Property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments on or before the following March 1 and October 15. The county bills and collects the District's taxes and remits them to the District.

(3) Due from Other Governments

Due from other governments represents grants and grant reimbursements due from state and federal governments.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(4) Changes in Capital Assets

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2021:

Governmental Activities	Balance			Balance
	June 30, 2020	Additions	Retirements	
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
<i>Capital Assets, being Depreciated</i>				
Buildings	11,623,200	-	-	11,623,200
Furniture and Equipment	207,797	50,473	-	258,270
Vehicles	190,363	114,212	-	304,575
Total Capital Assets, being Depreciated	12,021,360	164,685	-	12,186,045
<i>Less Accumulated Depreciation</i>				
Buildings	3,490,827	234,320	-	3,725,147
Furniture and Equipment	90,785	21,197	-	111,982
Vehicles	56,580	50,639	-	107,219
Total Accumulated Depreciation	3,638,192	306,156	-	3,944,348
Total Governmental Capital Assets, being Depreciated, Net	8,383,168	(141,471)	-	8,241,697
Governmental Activities Capital Assets	\$ 8,398,168	\$ (141,471)	\$ -	\$ 8,256,697

Depreciation expense was charged to functions as follows:

Regular Programs	\$ 236,454
Transportation	50,639
Administration	14,421
Operations and Maintenance	3,855
Food Service	787
	\$ 306,156

(5) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2021:

Governmental Activities	Balance			Balance	Due Within One Year
	June 30, 2020	Additions	Retirements		
Refunding Certificate of Indebtedness	\$ 2,200,000	\$ -	\$ (420,000)	\$ 1,780,000	\$ 425,000
Unamortized Premium	39,218	-	(7,844)	31,374	7,844
Accrued Leave	20,941	16,800	(15,501)	22,240	22,240
Governmental Activities Long-Term Liabilities	\$ 2,260,159	\$ 16,800	\$ (443,345)	\$ 1,833,614	\$ 455,084

Long-term liabilities are comprised of the following at June 30, 2021:

Refunding Certificates of Indebtedness Series 2015, requiring variable annual payments; variable interest at 2.0 to 3.0 percent, through August 2024; paid from the General Fund	\$ 1,780,000
	\$ 1,780,000

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(5) Long-Term Liabilities (Continued)

The annual requirements to amortize all debt outstanding as of June 30, 2021, are as follows:

Year Ending June 30	Certificates of Indebtedness	
	Principal	Interest
2022	\$ 425,000	\$ 57,600
2023	435,000	47,025
2024	450,000	34,125
2025	470,000	20,850
	\$ 1,780,000	\$ 159,600

At June 30, 2021, the District was not in compliance with the provisions of the Refunding Certificates of Indebtedness Series 2015 that requires assets to be accumulated in a restricted account for the payment of future debt service. The covenants require all District Impact Aid to be paid directly to the escrow agent. As of June 30, 2021, the District did not have the paperwork finalized for Impact Aid funding to be directly sent to the escrow agent; therefore, the covenant is not being met. The lender has maintained original payment schedules. As such, the debt is shown in accordance with the debt agreement.

(6) 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. The District pays a commercial carrier for health insurance coverage. Unemployment claims are paid by the District as such are filed.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,500 political subdivisions. The District pays an annual premium to NDRIF for its general liability, automobile and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile and \$3,060 for inland marine coverage.

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivision 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 has workers compensation with the North Dakota Workforce Safety and Insurance (WSI). WSI is a state insurance fund and a “no fault” insurance system, covering employers and employees. WSI is financed by premiums assessed to employers. The premiums are primarily for the payment of claims to employees injured in the course of employment. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in the past three fiscal years.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2021

(7) Pension Plan

The following brief description of Teacher's Fund for Retirement (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 (the 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.

Benefits Provided:

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 percent 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 percent times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100 percent or 50 percent 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 percent 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 percent times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100 percent or 50 percent 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.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(7) Pension Plan (Continued)

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 percent 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 percent times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100 percent or 50 percent 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 percent 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 percent of the teacher’s salary. Member and employer contributions will be reduced to 7.75 percent each when the fund reaches 100 percent funded ratio on an actuarial basis. The District’s contributions to TFFR for the years ended June 30, 2021, 2020, and 2019 were **\$207,439**, \$176,307, and \$188,792.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6 percent 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 and Inflows of Resources Related to Pensions

Proportionate Share of Net Position Restricted for Pension Benefits	\$ 5,959,687
Less: Proportionate Share of Total Pension Liability	3,778,093
Proportionate Share of Net Pension Liability	\$ 2,181,594

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(7) Pension Plan (Continued)

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

At June 30, 2021, the District’s liability was **\$2,181,594** for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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 TFRF employers. At June 30, 2020, the Employer’s proportion was 0.14254092 percent, which was a decrease of 0.02263105 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of **\$165,475**. At June 30, 2021, the District’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources was:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ -	\$ 81,421
Changes in Assumption	98,191	-
Changes in proportion and difference between District contributions and proportionate share of contributions	-	386,354
Net Difference between Projected and Actual Earnings on Pension Plan Investments	134,673	-
District Contributions Subsequent to the Measurement Date	207,439	-
Total	\$ 440,303	\$ 467,775

Deferred outflows of resources of **\$207,439** 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:

2022	\$ (38,380)
2023	(44,286)
2024	(34,085)
2025	(48,763)
2026	(75,726)
Thereafter	6,329
	\$ (234,911)

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 percent
Salary Increases	3.80 percent to 14.80 percent varying by service, including inflation and productivity
Investment Rate of Return	7.25 percent, net of investment expenses, including inflation
Cost-of-living adjustments	None

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2021**

(7) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

For active and inactive members, mortality rates were based on the PubT-2010 Employee table, projected 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.

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 as of June 30, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58.0%	6.9%
Global Fixed Income	23.0%	1.3%
Global Real Assets	18.0%	5.0%
Cash Equivalents	1.0%	0.0%

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 June 30, 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 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 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 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

District's Proportionate Share of the Net Pension Liability	Current Discount		
	1% Decrease	Rate	1% Increase
	\$ 2,905,766	\$ 2,181,594	\$ 1,579,770

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDTFFR financial report. NDTFFR's Comprehensive Annual Financial Report is located at www.rio.nd.gov/teachers-fund-retirement-employers.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2021**

(8) Prior Period Adjustments

Based on additional documentation available, a prior period adjustment was made to beginning net position and fund balance for an over payment of long-term debt in the prior year. An adjustment of \$48,976 was made to increase beginning net position and fund balance as of June 30, 2021.

(9) Emerging Accounting Standard

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, Leases, which requires the 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 terms of the lease. The statement requires a lessee 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. The District has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the District's year ending June 30, 2022.

(10) Current Economic Conditions

The District has been impacted by the world-wide coronavirus pandemic. The District's revenue consists primarily of funding provided by the State of North Dakota, the federal government, and local counties. The continued uncertainty regarding the local and national economy and labor markets as a result of the coronavirus pandemic could have a significant impact on the District's ability to maintain staffing and continue to provide services to students. The District moved to remote learning for a majority of the 2020-2021 school year. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the District's financial position is not known.

SUPPLEMENTARY INFORMATION

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	PASS-THROUGH NUMBER	CFDA NUMBER	FEDERAL EXPENDITURES
U.S. Department of Education:			
<i>Pass-Through Funding -- North Dakota Department of Public Instruction:</i>			
Title I Grants to Local Educational Agencies	F84010	84.010	\$ 356,410
Title II, Part A Improving Teacher Quality Grant	F84367	84.367A	143,215
Title IV - Student Support and Academic Enrichment Elementary and Secondary School Emergency Relief (ESSER) Fund - COVID-19	F84424A	84.424A	112,854
Perkins Grant - CTE Program Aid	F84425D	84.425D	300,381
	F84048	84.048	16,099
<i>SPED Cluster:</i>			
Special Education -- State Grants (IDEA Part B)	F84027A	84.027	92,503
Special Education -- Preschool Grants (IDEA Preschool)	F84173A	84.173	10,668
Total SPED Cluster			103,171
<i>Direct Assistance:</i>			
Impact Aid	S041B-2017-3627	84.041	1,584,734
Indian Education Grants to Local Education Agencies	N/A	84.060A	35,183
Total U.S. Department of Education			2,652,047
U.S. Department of Agriculture:			
<i>Pass-Through Funding --North Dakota Department of Public Instruction:</i>			
<i>Child Nutrition Cluster (Note 3):</i>			
Summer Food Service	F10559	10.559	110,809
Total Child Nutrition Cluster			110,809
SAE Food Nutrition	F10560	10.560	279
Fruits and Vegetables	F10582	10.582	3,973
Total U.S. Department of Agriculture			115,061
U.S. Department of Treasury:			
<i>Pass-Through Funding -- North Dakota Department of Public Instruction:</i>			
Coronavirus Relief Fund - COVID-19	F21019	21.019	128,231
<i>Pass-Through Funding -- Standing Rock Sioux Tribe:</i>			
Coronavirus Relief Fund - COVID-19	N/A	21.019	132,400
Total U.S. Department of Treasury			260,631
U.S. Department of Interior:			
<i>Pass-Through Funding -- Standing Rock Sioux Tribe</i>			
Indian Education - Assistance to Schools (JOM)	N/A	15.130	7,492
Total U.S. Department of Interior			7,492
Total Federal Awards			\$ 3,035,231

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

(1) Basis of Accounting

The District follows the modified accrual basis of accounting in the preparation of the Schedule of Expenditures of Federal Awards.

(2) De Minimis

The District did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) Federal Reimbursements

These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

OTHER REPORTS



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

School Board
Fort Yates Public School District No. 4
Fort Yates, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of **Fort Yates Public School District No. 4** (the District) 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, and have issued our report thereon dated November 24, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 District'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as 2021-001 to 2021-005 that we consider to be material weaknesses.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the District, 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 financial statements. 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 matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as 2021-004.

District's Response to Findings

The District's response to the findings identified in our engagement is described in the accompanying Schedule of Findings. The District's response was not subjected to the auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

November 24, 2021



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

School Board
Fort Yates Public School District No. 4
Fort Yates, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **Fort Yates Public School District No. 4** (the District) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings as item #2021-006. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District 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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 a 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 the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings as #2021-001, 2021-002, 2021-003, 2021-005, and 2021-006 that we consider to be material weaknesses.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

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.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 24, 2021

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**SCHEDULE OF FINDINGS
JUNE 30, 2021**

A. Summary of Audit Results

1. The Independent Auditor’s Report expresses unmodified opinions on the financial statements of Fort Yates Public School District No. 4 (the District).
2. Material weaknesses disclosed during the audit of the financial statements are reported in the 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*.
3. Instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. Material weaknesses disclosed during the audit of the major federal award programs are reported in the Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs for the District expresses a unmodified opinion on all major programs, as listed in #7.
6. Audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs we were engaged to test as major programs include the following:

Major Program	CFDA #'s
<i>U.S. Department of Education:</i> Impact Aid	84.041

8. The threshold for distinguishing Type A and Type B programs was \$750,000.
9. The District was not determined to be a low-risk auditee.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

SCHEDULE OF FINDINGS (CONTINUED)

JUNE 30, 2021

B. Findings – Financial Statement Audit

Material Weaknesses

2021-001 FINDING: Segregation of Duties

Federal Programs Affected: All major federal programs as listed in #7 in section A – Summary of Audit Results

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting

Questioned Costs: None

Condition and Cause: The District has not segregated all accounting duties (to include duties specifically related to compliance requirements of federal funding) to ensure that no one person is involved in more than one of the accounting and reporting processes of authorization, execution, custody, and recording for any given transaction. The District has limited oversight over accounting or compliance with funding sources. The District has limited staff available to fully segregate all duties. No written policies exist for data security, internet and mobile device use, or contingency plan. Backups are not performed on the accounting data.

Criteria and Effect: All good systems of internal accounting control include adequate segregation of duties so no one individual handles a transaction from its inception to its completion. Employees whose responsibilities encompass two or more phases of a transaction increase the risk of undetected errors, omissions, or misappropriation of assets of the District. Adequate oversight should be included in the internal control processes. Information technology policies and controls help safeguard the District from electronic threats, and backups provide the District with the ability to maintain records in the event of a disaster. A lack of information technology policies and backups could cause the District to lose data.

Repeat Finding from Prior Year: Yes, prior year finding 2020-001

Recommendation: We recommend the District evaluate the internal controls in the accounting and reporting process to determine if additional segregation of duties is feasible or if additional mitigating controls can be implemented, including oversight by management or the board. We also recommend the District prepare and communicate policies for data security, internet and mobile device use, and a contingency plan. A backup policy should also be prepared and implemented to ensure accounting data is maintained.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

2021-002 FINDING: Preparation of Financial Statements and Schedule of Federal Expenditures (SEFA)

Federal Programs Affected: All major federal programs as listed in #7 in section A – Summary of Audit Results

Compliance Requirement: Reporting

Questioned Costs: None

Condition and Cause: We were requested to draft the audited financial statements and the SEFA, and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size.

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

SCHEDULE OF FINDINGS (CONTINUED)

JUNE 30, 2021

B. Findings – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2021-002 FINDING: Preparation of Financial Statements and SEFA (Continued)

Repeat Finding from Prior Year: Yes, prior year finding 2020-002

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's financial statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

2021-003 FINDING: Adjusting Journal Entries/Account Reconciliation

Federal Programs Affected: All major federal programs as listed in #7 in section A – Summary of Audit Results

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Questioned Costs: None

Condition and Cause: We identified misstatements in the District's financial statements causing us to propose material audit adjustments. The District did not reconcile accounts to subsidiary schedules or complete year-end adjustments to reflect accurate balances.

Criteria and Effect: A good system of internal accounting control includes proper reconciliation of all general ledger accounts and adjustment of those accounts to the proper balances. Inadequate internal controls over recording of transactions affect the District's ability to detect misstatements in amounts that could be material to the financial statements.

Repeat Finding from Prior Year: Yes, prior year finding 2020-003

Recommendation: We recommend the District reconcile all general ledger accounts and adjust the accounts to the proper balances in a timely manner.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2021-004 FINDING: Debt Covenant Noncompliance

Federal Programs Affected: None

Compliance Requirement: None

Questioned Costs: None

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

**SCHEDULE OF FINDINGS (CONTINUED)
JUNE 30, 2021**

B. Findings – Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2021-004 FINDING: Debt Covenant Noncompliance (Continued)

Condition and Cause: The District has not complied with debt covenants related to establishing an escrow account equal to Impact Aid receipts for the school year. The escrow account was not utilized during the current year. The Business Officer indicated the cause of this is a lack of finalization of paperwork related to the escrow deposits and due to turnover in key staff.

Criteria and Effect: As part of the District's debt agreement, the District is required to comply with debt covenants as detailed in the agreement. Failure to comply could also result in penalties to the District or additional costs incurred to become compliant.

Repeat Finding from Prior Year: Yes, prior year finding 2020-004

Recommendation: We recommend the District finalize escrow information to submit necessary Impact Aid receipts directly to the escrow account.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2021-005 FINDING: Testing Errors

Federal Programs Affected: Title I (CFDA # 84.010)

Compliance Requirement: Allowable Costs

Questioned Costs: None over \$25,000.

Condition and Cause: We noted the following errors during our sample testing of 25 payroll transactions. Errors noted were due to lack of supporting documentation:

- a. Gross pay could not be recalculated for 1 certified and 10 noncertified employees as the School does not maintain signed contracts and approved pay rates. Additionally, 1 noncertified employee was being paid a rate other than the approved rate on their signed contract.
- b. One employee tested was not making and receiving the required TFFR contributions. The error was identified subsequent to year end and required TFFR contributions were made.
- c. Documentation could not be provided for one expense tested.

Criteria and Effect: Uniform Guidance requires expenditures to follow the allowable costs as outlined in the grant agreements and also requires adequate documentation of all federal disbursements. For non-federal disbursements, accounting standards require substantiating documentation to be maintained to support the business reasonableness of all expenditures. Lack of adequate documentation could result in questioned costs or misappropriation of District funds. TFFR assesses employees and employers participating in the plan. Such percentages are not consistently applied by the District.

Repeat Finding from Prior Year: Yes, prior year finding 2020-005

FORT YATES PUBLIC SCHOOL DISTRICT NO. 4

SCHEDULE OF FINDINGS (CONCLUDED)

JUNE 30, 2021

B. Findings – Financial Statement Audit (Concluded)

Material Weaknesses (Concluded)

2021-005 FINDING: Testing Errors (Continued)

Recommendation: Control processes regarding recordkeeping and maintenance of substantiating documentation should be maintained and reviewed to ensure documentation is being kept as evidence of the propriety of the expenditure. Review of expenditures should be documented on the expenditure documentation. The District should work with TFFR to determine retirement contributions are completed properly.

Response/Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Findings listed in Part B related to major federal programs of the District as noted in the finding.

Material Weaknesses

2021-006 FINDING: Grant Compliance and Written Uniform Guidance Policies

Federal Program Affected: All major federal programs as listed in #7 in section A – Summary of Audit Results

Compliance Requirement: Allowable Costs/Cost Principles, Cash Management, and Special Reporting

Questioned Costs: None

Condition and Cause: The District does not have written policies for allowable costs/cost principles and cash management. The District understated the total students provided education reported on its impact aid application by two students.

Criteria and Effect: Uniform Guidance specifically requires entities to maintain written policies for allowable costs/cost principles and cash management. The District's impact aid application should be supported by student counts and the application should be reviewed for errors. Not properly maintaining such policies and review procedures leads to noncompliance and potential unallowable costs.

Repeat Finding from Prior Year: Yes, 2020-006 modified.

Recommendation: The District should create written policies for allowable costs/cost principles and cash management and maintain adequate documentation supporting its Impact Aid application. Someone should review the Impact Aid application.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE

Fort Yates PUBLIC SCHOOL

DISTRICT
NO. 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2021

Fort Yates Public School District No. 4 respectfully submits the following summary schedule of prior audit findings from the June 30, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2020 Schedule of Findings.

Finding No. 2020-001: Lack of Segregation of Duties

Status: The District has not segregated all accounting duties. No written policies exist for data security, internet and mobile device use, or contingency plan. Backups are not performed on the accounting data.

Initial Year Reported: 2009

Reasons for Recurrence and Corrective Action Plan: As the District has determined that it is not beneficial to employ additional personnel just to be able to adequately segregate duties, it will be repeated in 2021, see Corrective Action Plan.

Finding No. 2020-002: Preparation of Financial Statements and Schedule of Federal Expenditures (SEFA)

Status: It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements and Schedule of Federal Expenditures as a part of the annual audit process. The District has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Reported: 2015

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2021, see Corrective Action Plan.

Finding No. 2020-003 Adjusting Journal Entries

Status: The District did not reconcile all accounts at year-end.

Initial Year Reported: 2015

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2020-004 Debt Covenant Noncompliance

Status: The District has not complied with debt covenants related to establishing an escrow account. The escrow account was not utilized during the current year.

Initial Year Reported: 2015

Reasons for Recurrence and Corrective Action Plan: No escrow was established resulting in the School being not in compliance with debt covenants. This finding is repeated, see Corrective Action Plan.

Fort Yates PUBLIC SCHOOL

DISTRICT
NO. 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED) JUNE 30, 2021

Finding No. 2020-005: Testing Errors

Status: Errors noted were due to lack of supporting documentation. There were no changes in the District's documentation process.

Initial Year Reported: 2015

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific testing errors each year and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2020-006: Grant Compliance and Written Uniform Guidance Policies

Status: The District did not adopt written policies for allowable costs/cost principles and cash management. The Impact Aid application and supporting records of student counts were maintained.

Initial Year Reported: 2017

Reasons for Recurrence and Corrective Action Plan: Written policies have not been developed. See modified finding and respective Corrective Action Plan.

**Fort Yates
PUBLIC SCHOOL**

DISTRICT
NO. 4

**CORRECTIVE ACTION PLAN
JUNE 30, 2021**

Fort Yates Public School District No. 4 respectfully submits the following corrective action plan regarding findings from the June 30, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2021 Schedule of Findings.

2021-001 FINDING: Segregation of Duties

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: Existing internal controls are being evaluated and new controls will be implemented based upon feasibility and staffing.

Anticipated Completion Date: Ongoing

2021-002 FINDING: Preparation of Financial Statements and Schedule of Federal Expenditures (SEFA)

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: The District agrees with the finding and accepts this risk. This will continue to be a finding as the Board and administration feel it is better to have an outside source prepare the year-end financial statements.

Anticipated Completion Date: Ongoing

2021-003 FINDING: Adjusting Journal Entries

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: Ledger accounts are balanced on a quarterly basis, with some balanced as part of the month end process.

Anticipated Completion Date: Ongoing

2021-004 FINDING: Debt Covenant Noncompliance

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: The required changes will be resolved in a future fiscal year. Until the time that debt covenant compliance is restored, payments have been and will continue to be made when due. Due to the fact that US Bank has not required us to set this escrow account up, it has not been a priority for the District to do so.

Anticipated Completion Date: Ongoing

CORRECTIVE ACTION PLAN (CONTINUED)
JUNE 30, 2021

2021-005 FINDING: Testing Errors

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: Many of the clerical and accounting issues have been resolved and continue to get better with the current stability of Business Manager position.

Anticipated Completion Date: Ongoing

2021-006 FINDING: Grant Compliance and Written Uniform Guidance Policies

Responsible Individuals: David Drapeaux, Business Manager

Corrective Action Plan: The District will create written Uniform Guidance policies and additional review processes will be applied to the Impact Aid Application.

Anticipated Completion Date: Ongoing