

**GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
GRAFTON, NORTH DAKOTA**

AUDITED BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
JUNE 30, 2021

Donald Suda	President
Barry Kingsbury	Vice-President
Tom Torkelson	Board Member
Jennifer Thompson	Board Member
Scott LeClerc	Board Member
Sharon Lipsh	Board Member
Maggie Suda	Board Member
Darren Albrecht	Superintendent
Cathi Heuchert	Business Manager

INDEPENDENT AUDITOR'S REPORT

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

Adoption of New Accounting Standard

As described in Note 12 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. As discussed in Note 12 to the financial statements, the District has restated the previously reported net position and fund balance in accordance with this statement. Our opinions are 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 management's discussion and analysis, budgetary comparison schedule, schedule of District's contributions to the TFFR and NDPERS pension plans, schedule of District's contributions to the NDPERS OPEB plan, schedule of District's proportionate share of net pension liability, and schedule of District's proportionate share of net OPEB liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

January 17, 2022

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

The discussion and analysis of Grafton Public School District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2021. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2021 are as follows:

- Net position of the District increased \$190,881 as a result of the current year's operations.
- Governmental net position totaled \$6,525,372.
- Total revenues from all sources were \$15,448,678.
- Total expenses were \$15,257,797.
- The District's general fund had \$13,682,095 in total revenues, \$12,343,904 in expenditures, and \$806,470 in net transfers and other financing sources/uses. Overall, the general fund balance increased by \$531,721 for the year ended June 30, 2021.

Using this Annual Report

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand Grafton Public School District No. 3 as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2021?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred inflows and outflows of resources, and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

These two statements report the District's net position and changes in its net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in North Dakota, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Building Fund, Sinking and Interest Fund #9 and the Sinking and Interest Fund #12.

Governmental Funds

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Financial Analysis of the District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position as of June 30, 2021.

As indicated in the financial highlights, the District's net position increased by \$190,881. Long-term liabilities increased by \$2,243,638 for the year ended June 30, 2021 primarily due to changes in the net pension liability and payments on the school construction bonds. Net position may serve over time as a useful indicator of the District's financial position.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

The District's net position of \$6,525,372 is segregated into three separate categories. Net position invested in Capital Assets (net of related debt) represents \$12,549,302 of the District's entire net position. It should be noted that these assets are not available for future spending. Restricted net position represents \$2,234,659 of the District's net position. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net position represents \$(8,258,589) of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations.

Table 1

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets	\$ 5,898,563	\$ 4,897,562
Capital Assets (Net of Accumulated Depreciation)	<u>25,025,489</u>	<u>25,476,265</u>
Total Assets	<u>30,924,052</u>	<u>30,373,827</u>
Deferred Outflows of Resources	<u>4,106,787</u>	<u>1,864,059</u>
Liabilities		
Current Liabilities	1,621,294	1,447,248
Non-Current Liabilities	<u>25,012,515</u>	<u>22,849,832</u>
Total Liabilities	<u>26,633,809</u>	<u>24,297,080</u>
Deferred Inflows of Resources	<u>1,871,658</u>	<u>1,883,446</u>
Net Position		
Net Investment in Capital Assets	12,549,302	12,107,285
Restricted	2,234,659	1,889,111
Unrestricted	<u>(8,258,589)</u>	<u>(7,939,036)</u>
Total Net Position	<u>\$ 6,525,372</u>	<u>\$ 6,057,360</u>

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

Table 2 shows the changes in net position for the fiscal year ended June 30, 2021.

Table 2

	<u>2021</u>	<u>2020</u>
Revenues		
Program Revenues		
Charges for Services	\$ 630,560	\$ 436,144
Operating Grants and Contributions	3,462,525	2,382,871
General Revenues		
Property Taxes	2,470,915	2,441,993
State Aid - Formula Grants	8,844,127	8,521,326
Investment Earnings	40,551	95,639
Total Revenues	<u>15,448,678</u>	<u>13,877,973</u>
Expenses		
Business Support Services	388,983	301,905
Instructional Support Services	490,473	506,445
Administration	783,482	795,300
Operations and Maintenance	1,015,387	1,055,206
Transportation	497,985	327,203
Regular Instruction	8,851,370	7,274,119
Special Education	1,536,271	1,633,285
Vocational Education	218,298	218,298
Extra-Curricular Activities	695,770	366,955
Food Services	531,810	505,466
Interest and Fees on Long-Term Debt	247,968	258,400
Total Expenses	<u>15,257,797</u>	<u>13,242,582</u>
Change in Net Position	190,881	635,391
Net Position - Beginning	<u>6,057,360</u>	<u>5,421,969</u>
GASB 84 Adjustment - See Note 12	<u>277,131</u>	<u>-</u>
Net Position - Beginning as Restated	<u>6,334,491</u>	<u>5,421,969</u>
Net Position - Ending	<u>\$ 6,525,372</u>	<u>\$ 6,057,360</u>

Property taxes constituted 16%, state aid 57%, operating grants and contributions 22%, charges for services made up 4%, and interest income made up less than 1% of the total revenues of governmental activities of the District for fiscal year 2021.

Regular instruction comprised 58% of District expenses.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table 3

	Total Cost for Year Ended 6/30/2021	Net Cost for Year Ended 6/30/2021	Total Cost for Year Ended 6/30/2020	Net Cost for Year Ended 6/30/2020
Business Support Services	\$ 388,983	\$ (388,983)	\$ 301,905	\$ (301,905)
Instructional Support Services	490,473	(490,473)	506,445	(506,445)
Administration	783,482	(783,482)	795,300	(795,300)
Operations and Maintenance	1,015,387	(1,015,387)	1,055,206	(1,055,206)
Transportation	497,985	(386,889)	327,203	(169,176)
Regular Instruction	8,851,370	(5,427,866)	7,274,119	(5,079,140)
Special Education	1,536,271	(1,516,348)	1,633,285	(1,625,508)
Vocational Education	218,298	(213,943)	218,298	(211,259)
Extra-Curricular Activities	695,770	(695,770)	366,955	(366,955)
Food Services	531,810	2,397	505,466	(54,273)
Interest and Fees on Long-Term Debt	247,968	(247,968)	258,400	(258,400)
Total Expenses	<u>\$ 15,257,797</u>	<u>\$ (11,164,712)</u>	<u>\$ 13,242,582</u>	<u>\$ (10,423,567)</u>

Business support services and administration include expenses associated with administrative and financial supervision of the District.

Instructional support services include the activities involved with assisting staff with the content and process of teaching to pupils.

Operations and maintenance of plant activities involve maintaining the school grounds, buildings, and equipment in an effective working condition.

Transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Special education includes costs that support the education of students with other needs.

Vocational education includes expenditures that support the teaching of vocational type instruction.

Extra-curricular activities include expenses related to student activities provided by the District, which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

Food Services include expenses directly dealing with providing breakfast and lunch service to students and staff of the District.

Interest and fees on long-term debt involves the transactions associated with the payment of interest and other related charges to debt of the District.

Financial Analysis of the District's Governmental Funds

The focus of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally may be used as a measure of the District's net resources available for spending at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. The District's governmental funds had total revenues of \$15,456,132 and expenditures of \$14,821,134 for the year ended June 30, 2021. As of June 30, 2021, the unassigned fund balance of the District's general fund was \$2,805,467.

Budget Highlights

During the course of the 2021 fiscal year, the District's general fund received \$897,966 more revenues and incurred \$348,061 less expenditures than budgeted. This is primarily the result of more federal, state, and local income received during the year as well as less regular instruction expenditures incurred than anticipated during the budgeting process.

Capital Assets

As of June 30, 2021, the District had \$25,025,489 invested in capital assets, net of accumulated depreciation. Table 4 shows balances as of June 30, 2021 (see Note 4 for details).

Table 4

Land and Land Improvements	\$ 1,477,933
Buildings	21,893,735
Equipment	1,356,462
Vehicles	297,359
Total	<u>\$ 25,025,489</u>

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

Long-Term Liabilities:

As of June 30, 2021, the District had \$26,015,459 in outstanding long-term liabilities. The District increased its long-term liabilities by \$2,243,638 from June 30, 2020 (See Note 5). See below for a description of the District's long-term liabilities:

	Balance 7/1/2020	Additions	Retirements	Balance 6/30/2021	Due in One Year
General Obligation State School Construction Fund Bonds of 2010	\$ 600,000	\$ -	\$ -	\$ 600,000	\$ -
Grafton Educational Foundation Lease Revenue Bonds of 2013	2,880,000	-	(175,000)	2,705,000	180,000
State School Construction Fund Bonds of 2014	9,856,033	-	(715,259)	9,140,774	717,523
Premium on Bonds Payable	32,947	-	(2,534)	30,413	2,534
Early Retirement	66,292	187,085	(41,205)	212,172	102,887
Choice Financial Loan	58,737	-	(58,737)	-	-
Net OPEB Liability	100,318	30,041	(27,969)	102,390	-
Net Pension Liability	10,177,494	7,108,647	(4,061,431)	13,224,710	-
Total	<u>\$ 23,771,821</u>	<u>\$ 7,325,773</u>	<u>\$ (5,082,135)</u>	<u>\$ 26,015,459</u>	<u>\$ 1,002,944</u>

For the Future:

Grafton School District will continue to evaluate our financial status based on the demographics and needs of the District. Staffing will be based on current and projected enrollment and resources needed to assist our families. The District has added staff at different levels due to the availability of federal dollars to assist with the costs. There is sustainability in these resources based on the reorganization of the District and the increase in our land base and potential enrollment. The impact of COVID on the 2020/2021 school year has placed an additional financial demand on the District. CARES dollars have been used to assist with the additional costs in preventive resources, a sustained evaluation of needs will result in determining allocations to keep our students and staff safe.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report by contacting Cathi Heuchert, Business Manager, Grafton Public School District, 1548 School Road, Grafton, ND 58237, or email at cathi.heuchert@k12.nd.us.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS	
Current Assets:	
Cash	\$ 4,738,306
Due from Other Governments	36,116
Property Taxes Receivable (Net)	215,140
Due From State	909,001
Total Current Assets	<u>5,898,563</u>
Non-Current Assets:	
Capital Assets	
Land	396,326
Land Improvements	1,533,662
Buildings	29,058,972
Equipment	4,113,941
Vehicles	878,025
Less Accumulated Depreciation	<u>(10,955,437)</u>
Total Non-Current Assets	<u>25,025,489</u>
TOTAL ASSETS	<u><u>30,924,052</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	1,590,934
Cost Sharing Defined Benefit Pension Plan - NDPERS	2,481,034
Cost Sharing Defined Benefit OPEB Plan - NDPERS	34,819
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,106,787</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	54,475
Accrued Payroll	533,499
Interest Payable	30,376
Early Retirement Payable Within a Year	102,887
Bonds Payable Within a Year	900,057
Total Current Liabilities	<u>1,621,294</u>
Long-Term Liabilities:	
Early Retirement Payable (Net of Current Portion)	109,285
Bonds Payable (Net of Current Portion)	11,576,130
Net OPEB Liability	102,390
Net Pension Liability	13,224,710
Total Non-Current Liabilities	<u>25,012,515</u>
TOTAL LIABILITIES	<u>26,633,809</u>
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	1,117,917
Cost Sharing Defined Benefit Pension Plan - NDPERS	738,118
Cost Sharing Defined Benefit OPEB Plan - NDPERS	15,623
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,871,658</u>
NET POSITION	
Net Investment in Capital Assets	12,549,302
Restricted for:	
Debt Service	667,065
Scholarships	105,737
Building	1,201,302
Student Activities	260,555
Unrestricted	<u>(8,258,589)</u>
TOTAL NET POSITION	<u><u>\$ 6,525,372</u></u>

See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expense) Revenue and Changes in Net Position</u>
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Business Support Services	\$ 388,983	\$ -	\$ -	\$ (388,983)
Instructional Support Services	490,473	-	-	(490,473)
Administration	783,482	-	-	(783,482)
Operations and Maintenance	1,015,387	-	-	(1,015,387)
Transportation	497,985	-	111,096	(386,889)
Regular Instruction	8,851,370	610,335	2,813,169	(5,427,866)
Special Education	1,536,271	-	19,923	(1,516,348)
Vocational Education	218,298	-	4,355	(213,943)
Extra-Curricular Activities	695,770	-	-	(695,770)
Food Services	531,810	20,225	513,982	2,397
Interest and Fees on Long-Term Debt	247,968	-	-	(247,968)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 15,257,797	\$ 630,560	\$ 3,462,525	(11,164,712)
GENERAL REVENUES				
Property Taxes, Levied for General Purposes				1,361,472
Property Taxes, Levied for Capital Projects				326,307
Property Taxes, Levied for Debt Service				783,136
Aids and Payments from the State				8,844,127
Unrestricted Investment Earnings				40,551
TOTAL GENERAL REVENUES				11,355,593
Change in Net Position				190,881
Net Position - Beginning, As Previously Reported				6,057,360
GASB 84 Adjustment - See Note 12				277,131
Net Position - Beginning, As Restated				6,334,491
Net Position - Ending				\$ 6,525,372

See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Building Fund	Sinking & Interest #9	Sinking & Interest #12	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 2,691,939	\$ 1,171,783	\$ 26,597	\$ 600,000	\$ 247,987	\$ 4,738,306
Property Taxes Receivable (Net)	110,349	29,519	70,844	-	4,428	215,140
Due from Other Funds	734	-	-	-	-	734
Due from State	907,744	-	-	-	1,257	909,001
Due from Other Governments	35,951	-	-	-	165	36,116
TOTAL ASSETS	<u>\$ 3,746,717</u>	<u>\$ 1,201,302</u>	<u>\$ 97,441</u>	<u>\$ 600,000</u>	<u>\$ 253,837</u>	<u>\$ 5,899,297</u>
LIABILITIES						
Accounts Payable	\$ 52,277	\$ -	\$ -	\$ -	\$ 2,205	\$ 54,482
Due to Other Funds	-	-	-	-	734	734
Accrued Payroll	529,616	-	-	-	3,883	533,499
TOTAL LIABILITIES	<u>581,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,822</u>	<u>588,715</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Uncollected Taxes	98,802	26,989	64,775	-	4,048	194,614
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>98,802</u>	<u>26,989</u>	<u>64,775</u>	<u>-</u>	<u>4,048</u>	<u>194,614</u>
FUND BALANCES						
Restricted	260,555	1,174,313	32,666	600,000	105,737	2,173,271
Committed	-	-	-	-	84,443	84,443
Assigned	-	-	-	-	52,787	52,787
Unassigned	2,805,467	-	-	-	-	2,805,467
TOTAL FUND BALANCES	<u>3,066,022</u>	<u>1,174,313</u>	<u>32,666</u>	<u>600,000</u>	<u>242,967</u>	<u>5,115,968</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 3,746,717</u>	<u>\$ 1,201,302</u>	<u>\$ 97,441</u>	<u>\$ 600,000</u>	<u>\$ 253,837</u>	<u>\$ 5,899,297</u>

See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total fund balances - governmental funds		\$ 5,115,968
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as net assets in government funds:		
Cost of capital assets	\$ 35,980,926	
Less: accumulated depreciation	<u>(10,955,437)</u>	
Net		25,025,489
Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds.		
		2,235,129
Bond premiums that are amortized over the life of the debt issue		
		(30,413)
Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
		194,621
Long-term liabilities are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds.		
Bonds Payable		(12,445,774)
Early Retirement Payable		(212,172)
Net OPEB Liability		(102,390)
Net Pension Liability		(13,224,710)
Interest payable is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		
		<u>(30,376)</u>
Net Position - Governmental Activities		<u>\$ 6,525,372</u>

See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Building Fund	Sinking & Interest #9	Sinking & Interest #12	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
Local Property Tax Levies	\$ 1,316,273	\$ 327,351	\$ 785,641	\$ -	\$ 49,104	\$ 2,478,369
Other Local and County Revenues	610,335	-	-	-	60,225	670,560
Revenue from State Sources	8,975,146	-	-	-	1,275	8,976,421
Revenue from Federal Sources	2,746,125	-	-	31,399	512,707	3,290,231
Interest	34,216	2,628	741	2,122	844	40,551
TOTAL REVENUES	13,682,095	329,979	786,382	33,521	624,155	15,456,132
EXPENDITURES						
Current:						
Business Support Services	388,983	-	-	-	-	388,983
Instructional Support Services	490,473	-	-	-	-	490,473
Administration	783,482	-	-	-	-	783,482
Operations and Maintenance	917,255	98,132	-	-	-	1,015,387
Transportation	455,588	-	-	-	-	455,588
Regular Instruction	6,165,014	-	-	-	27,500	6,192,514
Special Education	1,536,271	-	-	-	-	1,536,271
Vocational Education	218,298	-	-	-	-	218,298
Extra-Curricular Activities	695,770	-	-	-	-	695,770
Food Services	-	-	-	-	531,810	531,810
Capital Outlay	632,221	680,104	-	-	-	1,312,325
Debt Service:						
Principal Retirement	58,737	-	890,259	-	-	948,996
Interest and Fiscal Charges on Long-Term Debt	1,812	-	216,425	33,000	-	251,237
TOTAL EXPENDITURES	12,343,904	778,236	1,106,684	33,000	559,310	14,821,134
Excess (Deficiency) of Revenues over Expenditures	1,338,191	(448,257)	(320,302)	521	64,845	634,998
OTHER FINANCING SOURCES						
Proceeds on Sale of Capital Assets	2,500	-	-	-	-	2,500
Transfers Out	(893,550)	(175,000)	-	(521)	(84,059)	(1,153,130)
Transfers In	84,580	724,599	293,951	-	50,000	1,153,130
TOTAL OTHER FINANCING SOURCES (USES)	(806,470)	549,599	293,951	(521)	(34,059)	2,500
Net Change in Fund Balances	531,721	101,342	(26,351)	-	30,786	637,498
Fund Balance - Beginning of Year	2,257,170	1,072,971	59,017	600,000	212,181	4,201,339
GASB 84 Adjustment - See Note 12	277,131	-	-	-	-	277,131
Fund Balance - Beginning of Year, As Restated	2,534,301	1,072,971	59,017	600,000	212,181	4,478,470
Fund Balance - End of Year	\$ 3,066,022	\$ 1,174,313	\$ 32,666	\$ 600,000	\$ 242,967	\$ 5,115,968

See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Total net change in fund balances - Governmental Funds \$ 637,498

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense.

Capital Outlays	\$ 1,312,325
Depreciation Expense	<u>(927,073)</u>

Excess of capital outlay over depreciation expense	385,252
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Net Book Value on Disposal of Asset	(836,026)
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Some revenues will not be collected for several months after the District's fiscal year end. These revenues are considered "available" revenues in the government funds.

These revenues consist of:

Net change in unavailable property taxes	(7,454)
--	---------

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.	948,996
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Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consisted of the (increase)/decrease in:

Early Retirement	(145,880)
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Changes in deferred outflows and inflows of resources related to net pension liability	2,254,516
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Change in net OPEB liability	(2,072)
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Change in net pension liability	(3,047,216)
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Amortization of premiums received from bond issuance	2,534
--	-------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

	<u>735</u>
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Change in net position - Governmental Activities	<u>\$ 190,883</u>
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See Notes to the Basic Financial Statements

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Grafton Public School District operates the public schools in the City of Grafton, North Dakota. There is one elementary school and one junior/senior high school.

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

Based on these criteria, there are no component units to be included within the District's reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-Wide Financial Statements:

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

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

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Fund Financial Statements:

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

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

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

General Fund:

This fund is the general operating fund of the District. It accounts for all financial resources except those requiring to be accounted for in another fund, including the Student Activity Fund.

Debt Service Funds:

The Debt Service fund is used to account for the accumulation of resources for, and the payments of, general long-term debt principal, interest, and related costs. The sinking and interest fund's #9 and #12 are included in this category.

Building Fund:

The Building fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities. The special assessment fund is included in this category.

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

Special Revenue Funds:

Special Revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes. Included in this category are the transactions for the special reserve funds, scholarship funds and the food service fund.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

Basis of Accounting:

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

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

The District's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

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

Revenues - Exchange and Non-Exchange Transactions:

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

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

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

Unearned Revenues:

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

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

Expenses and Expenditures:

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

Budgets and Budgetary Accounting:

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

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

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

2. The Board reviews the budget, may make revisions, and adopts the final budget at the September board meeting to ensure it is adopted before the fifteenth of October each year. The budget is then filed with the county auditor by October tenth of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 15 of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Cash and Cash Equivalents:

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets:

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities' column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$1,500. Donated fixed assets are recorded at their acquisition values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

Land Improvements	50 Years
Buildings and Improvements	50 Years
Equipment and Fixtures	5 to 20 Years
Vehicles	8 Years

Accrued Liabilities and Long-term Obligations:

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

Pensions:

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB):

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

Fund Balance Classifications:

In the fund financial statements, governmental funds report fund balance in the classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – Consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provision and administered by the North Dakota Department of Public Inspection.

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

Assigned – This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

When both restricted and unrestricted resources are available for use, the District's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has two items reported on the statement of net position as *cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan*, which represents actuarial differences within the NDPERS and TFFR pension plans and NDPERS OPEB plan, as well as amounts paid to the plans after the measurement date.

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

Net Position:

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

Inter-fund Activity:

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

Estimates:

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Revenue Recognition - Property Taxes:

Taxes receivable consist of current and delinquent uncollected taxes on June 30, 2021.

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

Property tax revenue in the governmental funds is recognized in compliance with National Council of Government Accounting (NCGA) Interpretation 3, *Revenue Recognition - Property Taxes*. This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government-wide financial statements. Property taxes are limited by state laws. All School District tax levies are in compliance with state laws. The allowance for uncollectible taxes is \$3,276.

Significant Group Concentrations of Credit Risk:

As of June 30, 2021, the District's receivables consist of amounts due from other governmental units within the State of North Dakota.

NOTE 3 CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System. North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

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

At June 30, 2021, the carrying amount of the District's deposits was \$4,738,306 and the bank balance was \$5,668,618. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 4 CAPITAL ASSETS

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

	Balance 7/1/2020	Additions	Disposals	Transfers	Balance 6/30/2021
Governmental Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 396,326	\$ -	\$ -	\$ -	\$ 396,326
Total	<u>396,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,326</u>
Capital Assets Being Depreciated					
Land Improvements	910,093	623,569	-	-	1,533,662
Buildings	30,378,814	195,467	1,515,309	-	29,058,972
Equipment	3,972,377	326,920	185,356	-	4,113,941
Vehicles	811,753	166,369	100,097	-	878,025
Total	<u>36,073,037</u>	<u>1,312,325</u>	<u>1,800,762</u>	<u>-</u>	<u>35,584,600</u>
Less Accumulated Depreciation					
Land Improvements	380,206	71,849	-	-	452,055
Buildings	7,341,130	591,702	767,595	-	7,165,237
Equipment	2,645,821	221,281	109,623	-	2,757,479
Vehicles	625,941	42,243	87,518	-	580,666
Total	<u>10,993,098</u>	<u>927,075</u>	<u>964,736</u>	<u>-</u>	<u>10,955,437</u>
Net Capital Assets Being Depreciated	<u>25,079,939</u>	<u>385,250</u>	<u>836,026</u>	<u>-</u>	<u>24,629,163</u>
Net Capital Assets for Governmental Activities	<u>\$25,476,265</u>	<u>\$ 385,250</u>	<u>\$ 836,026</u>	<u>\$ -</u>	<u>\$25,025,489</u>

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

Elementary and Secondary Regular Instruction	\$ 881,007
Food Service	3,671
Transportation	42,397
Total	<u>\$ 927,075</u>

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5 LONG-TERM DEBT

The School District issued bonds to provide funding for the construction of additions and improvements to existing facilities. Long-term debt obligations outstanding at year-end and changes in long-term debt are summarized as follows:

	Balance 7/1/2020	Additions	Retirements	Balance 6/30/2021	Due in One Year
General Obligation State School Construction Fund Bonds of 2010	\$ 600,000	\$ -	\$ -	\$ 600,000	\$ -
Grafton Educational Foundation Lease Revenue Bonds of 2013	2,880,000	-	(175,000)	2,705,000	180,000
State School Construction Fund Bonds of 2014	9,856,033	-	(715,259)	9,140,774	717,523
Premium on Bonds Payable	32,947	-	(2,534)	30,413	2,534
Early Retirement	66,292	187,085	(41,205)	212,172	102,887
Choice Financial Loan	58,737	-	(58,737)	-	-
Net OPEB Liability	100,318	30,041	(27,969)	102,390	-
Net Pension Liability	<u>10,177,494</u>	<u>7,108,647</u>	<u>(4,061,431)</u>	<u>13,224,710</u>	<u>-</u>
Total	<u>\$ 23,771,821</u>	<u>\$ 7,325,773</u>	<u>\$ (5,082,135)</u>	<u>\$ 26,015,459</u>	<u>\$ 1,002,944</u>

Grafton Educational Foundation Inc. Lease Revenue Bonds of 2013 were issued at \$3,995,000 that mature on November 1, 2033. These revenue bonds will have an interest rate ranging from 2% to 4.5%.

State School Construction Fund Bonds of 2014 were issued at \$14,000,000 that mature on June 1, 2033. These construction bonds have an interest rate of 1%.

The 2010 Bonds are considered Qualified School Construction Bonds that the District will get reimbursed for the interest charges. The Bonds will not be paid until they expire in 2025, at which time they will be paid in full. To ensure that sufficient money will be available to pay the Bonds at maturity, the District is to set aside \$40,000 annually for fifteen years to cover the bond issue amount. This is included in the Sinking and Interest Fund #12 restricted fund balance. As of June 30, 2021, the entire \$600,000 has been transferred.

Interest expense was \$247,968 for the year ended June 30, 2021.

The early retirement obligation will be liquidated through the general fund.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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Annual debt service requirements to maturity for the long-term debt are as follows:

General Obligation State School Construction Bonds of 2014

Year	Principal	Interest	Total
2022	\$ 717,523	\$ 95,202	\$ 812,725
2023	728,464	84,233	812,697
2024	735,777	76,948	812,725
2025	743,135	69,590	812,725
2026	750,567	62,158	812,725
2026-2030	3,866,930	196,693	4,063,623
2031-2035	1,598,378	27,105	1,625,483
Total	\$ 9,140,774	\$ 611,929	\$ 9,752,703

Lease Revenue Bonds of 2013

Year	Principal	Interest	Total
2022	\$ 180,000	\$ 109,310	\$ 289,310
2023	190,000	101,910	291,910
2024	195,000	94,210	289,210
2025	200,000	86,310	286,310
2026	210,000	78,110	288,110
2027-2031	1,180,000	252,288	1,432,288
2032-2036	550,000	24,975	574,975
Total	\$ 2,705,000	\$ 747,113	\$ 3,452,113

Required sinking fund payments of \$600,000 have been fully set aside on June 30, 2021 for the General Obligation State School Construction Bonds of 2010. See table below for yearly activity:

General Obligation State School Construction Bonds of 2010

Year	Sinking Fund	Amount Set Aside
2022	\$ 40,000	\$ -
2023	40,000	-
2024	40,000	-
2025	40,000	-
Total	\$ 160,000	\$ -

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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The District will receive an interest subsidy each year to offset the \$33,000 of annual interest on the \$600,000 School Construction Bonds of 2010. See below:

General Obligation State School Construction Bonds of 2010

Year	Interest Expense	Interest Subsidies	Net Interest Payment
2022	\$ 33,000	\$ (33,000)	\$ -
2023	33,000	(33,000)	-
2024	33,000	(33,000)	-
2025	33,000	(33,000)	-
Total	<u>\$ 132,000</u>	<u>\$ (132,000)</u>	<u>\$ -</u>

NOTE 6 FUND BALANCES

A. CLASSIFICATIONS

At June 30, 2021, a summary of the governmental fund balance classifications are as follows:

	General Fund	Building Fund	Sinking & Int. #4	Sinking & Int. #12	Non Major Funds	Total
Restricted for:						
Debt Service	\$ -	\$ -	\$ 32,666	\$ 600,000	\$ -	\$ 632,666
Building	-	1,174,313	-	-	-	1,174,313
Student Activities	260,555	-	-	-	-	260,555
Scholarships	-	-	-	-	105,737	105,737
Assigned to:						
Food Service	-	-	-	-	52,787	52,787
Committed to:						
Special Reserve	-	-	-	-	84,443	84,443
Unassigned	2,805,467	-	-	-	-	2,805,467
	<u>\$ 3,066,022</u>	<u>\$ 1,174,313</u>	<u>\$ 32,666</u>	<u>\$ 600,000</u>	<u>\$ 242,967</u>	<u>\$ 5,115,968</u>

Restricted fund balances reflect resources restricted for statutorily defined purposes not accounted for in a separate fund. At June 30, 2021, there were the following accounts:

Restricted for Debt Service:

This account represents funds held by the School District available to service long-term debt.

Restricted for Building:

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

Restricted for Student Activities:

This account represents funds earned for the purpose of student activities.

Restricted for Scholarships:

This account represents funds donated to the School District for the purpose of student scholarships.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Committed fund balances reflect resources that can be used only for the specific purposes determined by a formal action of the School District's Board of Education. At June 30, 2021, there were the following accounts:

Committed for Special Reserve:

This account represents funds, which can be used whenever collections from taxes levied for the current budget are insufficient to meet the requirements of such budget.

NOTE 7 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to these plans follow:

North Dakota Teacher's Fund For Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Member and Employer Contributions

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

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

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

At June 30, 2021, the District reported a liability of \$9,141,583 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2020, the Employer's proportion was 0.597293 percent which was a decrease of 0.027651 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Employer recognized pension expense of \$792,163. At June 30, 2021, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,885	\$ 343,064
Changes in actuarial assumptions	411,452	-
Difference between projected and actual investment earnings	564,323	-
Changes in proportion	16,478	774,853
Contributions paid to TFFR subsequent to the measurement date	596,796	-
Total	<u>\$ 1,590,934</u>	<u>\$ 1,117,917</u>

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

\$596,796 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2022	\$ (4,331)
2023	(45,557)
2024	12,565
2025	(9,273)
2026	(50,112)
Thereafter	(27,071)

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

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 increase 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 was updated to the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019, and
- The pre-retirement mortality table was updated to the PubT-2010 Employee table projected with generational improvement using Scale MP-2019.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
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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	58.00%	6.90%
Global Fixed Income	23.00%	1.30%
Global Real Assets	18.00%	5.00%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.25% 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 Employer's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
School's proportionate share of the TFFR net pension liability:	\$ 12,176,097	\$ 9,141,583	\$ 6,619,746

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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.

North Dakota Public Employees' Retirement System

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

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

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

At June 30, 2021, the District reported a liability of \$4,083,127 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 District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2020, the District's proportion was 0.129787 percent which was a decrease of 0.004203 from its proportion measured July 1, 2019.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

For the year ended June 30, 2021, the District recognized pension expense of \$715,244. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 15,890	\$ 206,896
Changes in actuarial assumptions	2,188,814	361,865
Difference between projected and actual investment earnings	131,783	-
Changes in proportion	33,253	169,357
Contributions paid to NDPERS subsequent to the measurement date	111,294	-
Total	<u>\$ 2,481,034</u>	<u>\$ 738,118</u>

\$111,294 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2022	\$ 498,921
2023	396,200
2024	332,012
2025	404,489

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	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.00%	6.30%
International Equity	21.00%	6.85%
Private Equity	7.00%	9.75%
Domestic Fixed Income	23.00%	1.25%
Global Real Assets	19.00%	5.01%

Discount Rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

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 4.64 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	3.64%	4.64%	5.64%
School's proportionate share of the NDPERS net pension liability:	\$ 5,297,551	\$ 4,083,127	\$ 3,089,432

Pension Plan Fiduciary Net Position

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 8 DEFINED BENEFIT OPEB PLAN

Defined Benefit OPEB Plan

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

At June 30, 2021, the District reported a liability of \$102,390 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2020, the District's proportion was 0.121719 percent which was a decrease of 0.003181 percent from its proportion measured as of July 1, 2019.

For the year ended June 30, 2021, the District recognized OPEB expense of \$12,017. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,274	\$ 2,455
Changes of assumptions	13,728	-
Net difference between projected and actual earnings on OPEB plan investments	3,521	-
Changes in proportion and differences between employer contributions and proportionate share of contribution	-	13,168
District contributions subsequent to the measurement date	15,296	-
Total	\$ 34,819	\$ 15,623

\$15,296 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022.

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

<u>Year ending June 30:</u>	
2022	576
2023	1,486
2024	1,319
2025	393
2026	111
Thereafter	15

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Actuarial Assumptions

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

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Domestic Equities	33.00%	6.10%
Small Cap Domestic Equities	6.00%	7.00%
Domestic Fixed Income	40.00%	1.15%
International Equities	21.00%	6.45%

Discount rate. The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2019, and July 1, 2018, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2020, calculated using the discount rate of 6.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease in Discount Rate 5.50%	Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
District's proportionate share of the net OPEB liability	\$ 134,286	\$ 102,390	\$ 75,417

Pension Plan Fiduciary Net Position

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

NOTE 9 RISK MANAGEMENT

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

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

The District also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Worker's Compensation Bureau and purchases commercial insurance for employee health and accident insurance.

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

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 10 CONTINGENT LIABILITIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2021, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 11 NON-MONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2021 was \$27,769.

NOTE 12 CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

The District implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, beginning net position and beginning general fund balance has been restated to reflect the student activity fund balance of \$277,131, resulting in an increase in net position and general fund balance.

Net Position July 1, 2020 as previously reported	\$ 6,057,360
Restatement for fiduciary accounting:	
Student Activity Fund Balance	277,131
Net Position July 1, 2020 as restated	\$ 6,334,491
Fund Balance July 1, 2020, as previously reported	\$ 2,257,169
Restatement for fiduciary accounting	277,131
Fund Balance July 1, 2020, as restated	\$ 1,648,355

NOTE 13 COMMITMENTS

Lease Commitments

The District leases copy machines under a non-cancelable operating lease for five years. The following is a schedule of future minimum rentals under the lease at June 30, 2021:

Year Ending June 30,	
2022	\$ 41,940
2023	41,940
2024	41,940
2025	41,940
2026	34,950
	\$202,710

The Grafton School District is leasing the Centennial Center from the Grafton Parks and Recreation District for the amount of \$27,520 for the 2019-2020 season.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 14 LEASE OF VOCATIONAL BUILDING

The District leases a building on an annual basis to the North Valley Career and Technical Center. During the year ended June 30, 2021, the District received payments totaling \$35,000 from the Center. The rent for the 2021-2022 school year has been set at \$35,000. The lease agreement calls for the District to ensure the building and for North Valley Career and Technical Center to pay for any structural repairs or improvements. The Center pays all other operating costs including utilities and insurance on contents.

NOTE 15 VOCATIONAL PROGRAM COSTS

The District is the largest participant in the North Valley Career and Technical Center. For the year ended June 30, 2021, the District's share of the Center's budget was \$218,298. The District's share of the Center's budget for the 2021-2022 school year is expected to be approximately \$218,298.

NOTE 16 SPECIAL EDUCATION PROGRAM COSTS

The District is the largest participant in the Upper Valley Special Education Cooperative. For the year ended June 30, 2021, the District's share of the Cooperative's budget was \$918,841. The District's share of the Cooperative's budget for the 2021-2022 school year is expected to be approximately \$940,612.

NOTE 17 TRANSFERS

The transfers as of June 30, 2021 consist of the following:

Transfers In	Transfers Out	Amount
General Fund	Sinking and Interest Fund #12	\$ 521
General Fund	Special Reserve	84,059
Food Service Fund	General Fund	50,000
Sinking and Interest Fund #9	Building Fund	175,000
Sinking and Interest Fund #9	General Fund	118,951
Building Fund	General Fund	724,599
		<u>\$ 1,153,130</u>

Transfers from the building fund and general fund to the sinking and interest fund #9 were to make debt payments. The transfer from the general fund to the food service fund was to cover the fund balance deficit. The transfer from the general fund to the building fund was related to construction costs. The transfer from the sinking and interest fund #12 to the general fund was to close out the balance in excess of future debt payments.

NOTE 18 EARLY RETIREMENT

The District has adopted an early retirement policy for teachers who are eligible to retire based on TFFR rules, who have completed fifteen years of total employment at the District and who have worked for the District for the five years immediately preceding the application for retirement. Teachers who choose to retire can receive a retirement payment made in equal payments over a period of two to three years. A teacher's payment is based on the individual's current contract at the time of application based on a starting reduction factor of 80%. If the individual applies for early retirement after their first year of eligibility, they will receive a reduced incentive amount. See Note 5.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 19 INTERFUND BALANCES

The District has the following interfund receivables and payables as of June 30, 2021:

	Interfund Receivable	Interfund Payable
General Fund	\$ 734	\$ -
Food Service Fund	-	734
	\$ 734	\$ 734

Interfund balances consist of expenditures paid on behalf of other funds as of June 30, 2021.

NOTE 20 NEW 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-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

GASB Statement No. 92, Omnibus 2020, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, Replacement of Interbank Offered Rates, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, Subscription-Based Information Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

NOTE 21 SUBSEQUENT EVENTS

On July 1, 2021, the District reorganized with St. Thomas Public School District due to the decreasing student population within the St. Thomas Public School District. Subsequent events have been evaluated through January 17, 2022, which is the date these financial statements were available to be issued.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Property Tax Levies	\$ 1,269,864	\$ 1,269,864	\$ 1,316,273	\$ 46,409
Other Local & County Revenues	266,000	266,000	610,335	344,335
Revenue From State Sources	8,643,119	8,643,119	8,975,146	332,027
Revenue From Federal Sources	2,550,146	2,550,146	2,746,125	195,979
Interest	55,000	55,000	34,216	(20,784)
TOTAL REVENUES	12,784,129	12,784,129	13,682,095	897,966
EXPENDITURES				
Business Support Services	298,940	298,940	388,983	90,043
Instructional Support Services	566,009	566,009	490,473	(75,536)
Administration	826,410	826,410	783,482	(42,928)
Operations and Maintenance	1,094,355	1,094,355	917,255	(177,100)
Transportation	387,493	387,493	455,588	68,095
Regular Instruction	7,226,955	7,226,955	6,165,014	(1,061,941)
Special Education	1,615,898	1,615,898	1,536,271	(79,627)
Vocational Education	218,298	218,298	218,298	-
Extra-Curricular Activities	356,509	356,509	695,770	339,261
Capital Outlay	-	-	632,221	632,221
TOTAL EXPENDITURES	12,610,867	12,610,867	12,343,904	(348,061)
Excess (Deficiency) of Revenues Over Expenditures	173,262	173,262	1,338,191	1,246,027
OTHER FINANCING SOURCES (USES)				
Proceeds From Disposal of Capital Asset	-	-	2,500	2,500
Transfers Out	(417,385)	(417,385)	(893,550)	(476,165)
Transfers In	82,268	82,268	84,580	2,312
TOTAL OTHER FINANCING SOURCES (USES)	(335,117)	(335,117)	(806,470)	(471,353)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(161,855)	(161,855)	531,721	693,576
Fund Balances - Beginning	2,257,170	2,257,170	2,257,170	-
GASB 84 Adjustment - See Note 12	277,131	277,131	277,131	-
Fund Balances - Beginning, As Restated	2,534,301	2,534,301	2,534,301	-
Fund Balances - Ending	\$ 2,372,446	\$ 2,372,446	\$ 3,066,022	\$ 693,576

See Notes to the Required Supplementary Information

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

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2021	\$ 596,796	\$ (596,796)	\$ -	\$ 4,680,753	12.75%
2020	555,825	(555,825)	-	4,359,414	12.75%
2019	558,980	(558,980)	-	4,384,159	12.75%
2018	543,075	(543,075)	-	4,259,415	12.75%
2017	573,532	(573,532)	-	4,498,285	12.75%
2016	570,920	(570,920)	-	4,477,799	12.75%
2015	547,702	(547,702)	-	4,295,908	12.75%

North Dakota Public Employees Retirement System

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2021	\$ 111,294	\$ (111,294)	\$ -	\$ 1,532,562	7.26%
2020	108,147	(108,147)	-	1,517,061	7.13%
2019	109,463	(109,463)	-	1,537,395	7.12%
2018	112,448	(112,448)	-	1,579,324	7.12%
2017	112,670	(112,670)	-	1,582,450	7.12%
2016	103,421	(103,421)	-	1,452,549	7.12%
2015	82,387	(82,387)	-	1,157,124	7.12%

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

See Notes to the Required Supplementary Information

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

North Dakota Public Employees Retirement System – OPEB

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered - Employee Payroll	Contributions as a Percentage of Covered - Employee Payroll
2021	\$ 15,296	\$ 15,296	\$ -	\$ 1,532,562	1.00%
2020	17,162	17,162	-	1,517,061	1.13%
2019	17,526	17,526	-	1,537,395	1.14%
2018	18,004	18,004	-	1,579,324	1.14%

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

See Notes to the Required Supplementary Information

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

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.597293%	\$ 9,141,583	\$ 4,358,209	209.76%	63.40%
2020	0.624944%	8,607,058	4,384,159	196.32%	65.50%
2019	0.626560%	8,351,159	4,259,415	196.06%	65.50%
2018	0.666441%	9,153,737	4,498,285	203.49%	63.20%
2017	0.689184%	10,096,947	4,477,799	225.49%	59.20%
2016	0.698403%	9,134,100	4,295,908	212.62%	62.10%
2015	0.688450%	7,213,735	3,993,377	180.64%	66.60%

North Dakota Public Employees Retirement System

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.129787%	\$ 4,083,127	\$ 1,431,710	285.19%	48.91%
2020	0.133990%	1,570,436	1,393,708	112.68%	71.66%
2019	0.140581%	2,372,458	1,444,213	164.27%	62.80%
2018	0.162237%	2,607,681	1,656,188	157.45%	61.98%
2017	0.159849%	1,557,884	1,610,902	96.71%	70.46%
2016	0.129886%	883,203	1,157,124	76.33%	77.15%
2015	0.120956%	767,734	1,018,899	75.35%	77.70%

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

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

See Notes to the Required Supplementary Information

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

North Dakota Public Employees Retirement System – OPEB

For the Fiscal Year Ended June 30	District's proportion of the net OPEB liability (asset)	District's proportionate share of the net OPEB liability (asset)	District's covered - employee payroll	District's proportionate share of the net OPEB liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2021	0.1217%	\$ 102,390	\$ 1,387,565	7.38%	63.38%
2020	0.1249%	100,318	1,393,708	7.20%	63.13%
2019	0.1320%	103,948	1,444,213	7.20%	61.89%
2018	0.1531%	121,096	1,656,188	7.31%	59.78%

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

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

See Notes to the Required Supplementary Information

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021

NOTE 1– BUDGETARY COMPARISON

Budgets and Budgetary Accounting:

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

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget before August tenth of each year. The budget is then filed with the county auditor by August tenth of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after August tenth of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2021

NOTE 2 – CHANGES OF BENEFIT TERMS AND ASSUMPTIONS

TFFR

Changes of assumptions

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 was updated to the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019; and
- 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 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

NDPERS

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2021

All other actuarial assumptions and the actuarial costs method are unchanged from the last actuarial valuation as of July 1, 2019.

Changes of benefit terms.

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

OPEB

Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

Changes of benefit terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2021

	Special Reserve	Scholarship	Food Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	\$ 84,063	\$ 105,737	\$ 58,187	\$ 247,987
Property Taxes Receivable (Net)	4,428	-	-	4,428
Due from Other	-	-	165	165
TOTAL ASSETS	\$ 88,491	\$ 105,737	\$ 59,609	\$ 253,837
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 2,205	\$ 2,205
Due to Other Funds	-	-	734	734
Accrued Payroll	-	-	3,883	3,883
TOTAL LIABILITIES	-	-	6,822	6,822
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	4,048	-	-	4,048
TOTAL DEFERRED INFLOWS OF RESOURCES	4,048	-	-	4,048
FUND BALANCES				
Restricted	-	105,737	-	105,737
Committed	84,443	-	-	84,443
Assigned	-	-	52,787	52,787
TOTAL FUND BALANCES	84,443	105,737	52,787	242,967
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 88,491	\$ 105,737	\$ 59,609	\$ 253,837

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NON-MAJOR
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Special Reserve	Scholarship	Food Service Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
Local Property Tax Levies	\$ 49,104	\$ -	\$ -	\$ 49,104
Other Local and County Revenues	-	40,000	20,225	60,225
Revenue From State Sources	-	-	1,275	1,275
Revenue From Federal Sources	-	-	512,707	512,707
Interest	479	318	47	844
	<u>49,583</u>	<u>40,318</u>	<u>534,254</u>	<u>624,155</u>
TOTAL REVENUES				
EXPENDITURES				
Current:				
Regular Instruction	-	27,500	-	27,500
Food Services	-	-	531,810	531,810
	<u>-</u>	<u>27,500</u>	<u>531,810</u>	<u>559,310</u>
TOTAL EXPENDITURES	<u>-</u>	<u>27,500</u>	<u>531,810</u>	<u>559,310</u>
Excess (Deficiency) of Revenues over Expenditures	<u>49,583</u>	<u>12,818</u>	<u>2,444</u>	<u>64,845</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	50,000	50,000
	<u>(84,059)</u>	<u>-</u>	<u>50,000</u>	<u>(34,059)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(84,059)</u>	<u>-</u>	<u>50,000</u>	<u>(34,059)</u>
Net Change in Fund Balances	(34,476)	12,818	52,444	30,786
Fund Balance - Beginning of Year	118,919	92,919	343	212,181
	<u>118,919</u>	<u>92,919</u>	<u>343</u>	<u>212,181</u>
Fund Balance - End of Year	<u>\$ 84,443</u>	<u>\$ 105,737</u>	<u>\$ 52,787</u>	<u>\$ 242,967</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise Grafton Public School District No. 3's basic financial statements and have issued our report thereon dated January 17, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Grafton Public School District No. 3'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 entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Grafton Public School District No. 3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response To Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose Of This Report

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



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

January 17, 2022

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

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

Report on Compliance for Each Major Federal Program

We have audited Grafton Public School District No. 3's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Grafton Public School District No. 3's major federal programs for the year ended June 30, 2021. The Grafton Public School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Grafton Public School District No. 3'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 the major federal programs. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Grafton Public School District No. 3 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Grafton Public School District No. 3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



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

January 17, 2022

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

<u>Award Listing #</u>	<u>Description</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed - Through to Subrecipients</u>	<u>Expenditures</u>
<u>Federal Communications Commission</u>				
Passed Through the North Dakota State Department of Public Instruction				
32.004	Universal Service Fund - Schools and Libraries	F32004		<u>\$ 28,948</u>
Total Federal Communications Commission				<u>28,948</u>
<u>Department of Treasury</u>				
Passed Through the North Dakota State Department of Public Instruction				
21.019	COVID-19 Education Corps Revenue	F21019		214,846
21.019	COVID-19 Resiliency Grant Revenue	F21019		243,496
21.019	COVID-19 Broadband Assistance Revenue	F21019		<u>4,795</u>
Total Department of Treasury				<u>463,137</u>
<u>Department of Education</u>				
Passed Through the North Dakota State Department of Public Instruction				
84.010	Chapter 1/TITLE I-Compensatory	F84010		395,595
84.010	Title I - Passed through to St. Thomas	F84010	\$ 25,103	<u>25,103</u>
Total 84.010				<u>420,698</u>
84.011	Migrant Education - State Grant Program	F84011A		91,313
84.144	Migrant Education Coordination Program	F84144F		24,714
84.365	Title III	F84365A		12,711
84.367	Supporting Effective Instruction State Grants	F84367		81,028
84.371	ND Striving Readers Comprehensive Literacy	F84371C		764,323
84.424	Student Support and Academic Enrichment Program	F84424		55,313
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund	F84425D		201,403
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund - St. Thomas	F84425D	<u>18,602</u>	<u>18,602</u>
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund II	F84425D		245,807
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund III	F84425D		<u>34,182</u>
Total 84.425				<u>499,994</u>
Total Passed through ND DPI				<u>1,950,094</u>
Passed Through North Valley Career-Tech Center				
84.287	21st Century Community Learning Centers	F84287A		276,746
84.048	Carl Perkins	F84048		<u>4,355</u>
Total Passed Through North Valley Career-Tech Center				<u>281,101</u>
Total Department of Education				<u>2,231,195</u>
<u>United States Environmental Protection Agency</u>				
Passed Through the North Dakota Department of Health				
97.067	State Clean Diesel Grant Program	F97067		<u>22,846</u>
Total Department of Transportation				<u>22,846</u>
<u>Department of Agriculture</u>				
Passed Through the North Dakota State Department of Public Instruction				
Child Nutrition Cluster:				
10.558	Child and Adult Care Food Program	F10558		11,358
10.559	COVID-19 Summer Food Service	F10559		440,122
10.555	Food Distribution-Non Cash	F10555		<u>27,769</u>
Total Cluster				479,249
10.560	SAE Food Nutrition	F10560		2,791
10.582	Fruit and Vegetable Grant	F10582		<u>30,667</u>
Total Department of Agriculture				<u>512,707</u>
TOTAL			<u>\$ 43,705</u>	<u>\$ 3,258,833</u>

See Notes to the Schedule of Expenditures of Federal Awards

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – INDIRECT COST RATE

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

NOTE 3 - NONMONETARY TRANSACTIONS

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

NOTE 4 - BASIS OF PRESENTATION

The Schedule includes the federal award activity of Grafton Public School District No. 3 under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Grafton Public School District No. 3, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE 5 - RECONCILIATION OF FEDERAL REVENUES TO THE SCHEDULE OF FEDERAL AWARDS

Federal Revenues per page 16	\$ 3,290,231
Internal Revenue Service Interest Subsidy on General Obligation School Bonds	<u>(31,398)</u>
Total Schedule of Expenditures of Federal Awards	<u>\$ 3,258,833</u>

NOTE 6 - PASS-THROUGH ENTITIES

All pass-through entities listed above use the same AL numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7 – SUBRECIPIENT TRANSACTIONS

The District acted as the fiscal agent for the Title I and Elementary and Secondary School Emergency Relief Funds for St. Thomas Public School during the current period being reported. Funds that have been provided are as follows:

<u>CFDA #</u>	<u>Description</u>	<u>Amount</u>
84.010	Title I	\$ 25,103
84.425	ESSER I	<u>18,602</u>
Total		<u>\$ 43,705</u>

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported

Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.371	Striving Readers Comprehensive Literacy
84.425	Elementary and Secondary School Emergency Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
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GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

2021-001 Finding

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding

See finding 2020-001

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Management's Response

The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings to be reported in this section.

GRAFTON PUBLIC SCHOOL DISTRICT NO. 3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021

2020-001 Finding

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Management's Response

The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

Corrective Action Taken

None. See current year finding 2021-001.

GRAFTON PUBLIC SCHOOLS
***Inspiring Excellence
Building Character***

Superintendent
Darren Albrecht
1548 School Road
701-352-1930
701-352-1943 Fax

Grafton High School
Randy Rice, 7-12
1548 School Road
701-352-1930
701-352-1943 Fax

Century Elementary
Brad Larson, 3-6
830 15 St West
701-352-1930
701-352-1120 Fax

Century Elementary
Jill Olson, PK-2
1542 School Road
701-352-1930
701-352-0163 Fax

Activities Director
Jon Koehmstedt
1548 School Road
701-352-1930
701-352-1943 Fax

CORRECTIVE ACTION PLAN
AS OF JUNE 30, 2021

2021-001

Contact Person
Cathi Heuchert

Planned Corrective Action
The District will implement when it becomes cost-effective.

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

Board of Education
Donald Suda, President
Sharon Lipsh, Vice President
Chad Bigwood, Nathan Green, Trina Papenfuss,
Maggie Suda and Jennifer Thompson
Cathi Heuchert, Business Manager