

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2021

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

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June 30, 2021

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HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

OFFICIAL DIRECTORY
June 30, 2021

Tim Kozojed	President
Paul Kozojed	Vice-President
Brooke Duval	Board Member
Mary Mattson	Board Member
Kris Brekken	Board Member
Paula Suda	Superintendent
Vicky Grothmann	Business Manager



INDEPENDENT AUDITOR'S REPORT

School Board
Hillsboro Public School District No. 9
Hillsboro, 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 the Hillsboro Public School District No. 9, as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise Hillsboro Public School District No. 9's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Hillsboro Public School District No. 9's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro Public School District No. 9, as of June 30, 2021 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the District has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in an adjustment of the net position and fund balance of the General Fund as of July 1, 2020. 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 – general fund, schedules of employer's proportionate share of net pension liability, schedules of employer contributions, and notes to required supplementary information 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 Hillsboro Public School District No. 9's basic financial statements. The nonmajor governmental funds – combining balance sheet and nonmajor governmental funds – combining schedule of revenues, expenditures, and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor governmental funds – combining balance sheet and nonmajor governmental funds – combining schedule of revenues, expenditures, and changes in fund balance 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 nonmajor governmental funds – combining balance sheet and nonmajor governmental funds – combining schedule of revenues, expenditures, and changes in fund balance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The official directory 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022 on our consideration of Hillsboro Public School District No. 9's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsboro Public School District No. 9's internal control over financial reporting and compliance.

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, ND
June 23, 2022

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

The Management's Discussion and Analysis (MD&A) of Hillsboro Public School District No. 9's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2021, with comparative data for the fiscal year ended June 30, 2020. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

Financial Highlights

Key financial highlights for the year ended June 30, 2021 are as follows:

The District received CARE Act funds in the form of ESSER I, Broadband, Ed Corps and Resiliency funds. Due to COVID, it was necessary to add an additional mental health service day to two days per week. The District updated iPads, Chromebooks and Interactive TVs and added a 1.5 FTE Strategist at the Elementary School. The District was in person teaching the whole year and spent additional monies on COVID precaution items such as masks, sanitizers and a scrubber.

Using this Annual Report

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the Hillsboro Public School District No. 9 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. 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 general fund with all other governmental funds presented in total in one column.

Reporting on the District as a Whole

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the Hillsboro Public School District No. 9 to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended June 30, 2021?"

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information on how the District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes).

These two statements report the District's net position and changes in net position. The change in net position is important because it tells the reader whether, for the District as a whole, the financial position of the District has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

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, regular instruction, federal programs, special education, vocational education, administration, food services, operation and maintenance of buildings and grounds, student transportation, and co-curricular activities.

The government-wide financial statements can be found on pages 10-11 of this report.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Management’s Discussion and Analysis - Continued

Reporting on the District's Most Significant Funds

Balance Sheet - Governmental Funds

The District uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basic financial statements allow the District to demonstrate its stewardship over the accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the District’s major funds. Using the criteria established by GASB Statement No. 34, the District’s general fund, debt service fund, and capital projects fund are considered a “major fund.”

The District’s other funds, the special reserve fund and food service fund, are used to account for a multitude of financial transactions and is summarized under the heading “Other Governmental Funds”.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 16-37 of this report.

The combining statements referred to earlier in connection with non-major government funds can be found on pages 44-45 of this report.

Financial Analysis of the District as a Whole

Table I provides a summary of the District’s net position as of June 30, 2021 and 2020. As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Hillsboro Public School District No. 9, net position decreased by \$35,882 for the year ending June 30, 2021.

The District’s net position at June 30, 2021 is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net positions are available to meet the District’s ongoing obligations.

Table I
Net Position
June 30,

	2021	2020
Assets and Deferred Outflows of Resources		
Current Assets	\$ 2,761,263	\$ 2,480,748
Capital Assets, net of depreciation	6,759,409	6,950,357
Deferred Outflows of Resources	2,079,742	1,119,951
Total Assets and Deferred Outflows of Resources	11,600,414	10,551,056
Liabilities and Deferred Inflows of Resources		
Current Liabilities	271,703	419,135
Long-term Liabilities	10,349,719	9,207,029
Deferred Inflows of Resources	782,242	692,260
Total Liabilities and Deferred Inflows of Resources	11,403,664	10,318,424
Net Position		
Net Investment in Capital Assets	3,542,593	3,550,104
Restricted	1,311,117	1,183,489
Unrestricted (Deficit)	(4,656,960)	(4,500,961)
Total Net Position	\$ 196,750	\$ 232,632

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Management's Discussion and Analysis - Continued

Table II shows the changes in net position for the fiscal years ended June 30, 2021 and 2020.

Table II
Changes in Net Position
Years Ended June 30,

	2021	2020
Revenues		
Program Revenues		
Charges for Services	\$ 338,099	\$ 417,122
Operating Grants and Contributions	1,135,303	618,615
General Revenues		
Property Taxes	1,834,757	1,820,484
State Aid-Unrestricted	4,069,430	3,951,396
Interest and Miscellaneous Earnings	172,799	236,637
Total Revenues	7,550,388	7,044,254
Expenses		
Regular Instruction	3,991,570	3,606,194
Special Instruction	348,377	278,176
Vocational Instruction	268,012	252,368
Pupil Services	450,043	429,117
General Administration Services	181,782	175,634
School Administration Services	230,789	210,312
Operation and Maintenance	688,632	771,095
Pupil Transportation	222,494	278,508
Student Activities	634,039	545,658
School Food Services	385,388	396,516
Community Services	90,940	82,444
Interest and Other Charges	94,204	94,380
Total Expenses	7,586,270	7,120,402
Change in Net Position	\$ (35,882)	\$ (76,148)

Unrestricted state aid constituted 53.9%, property tax 24.3%, operating grants and contributions 15.0%, and charges for services 4.5% of the total revenues of governmental activities of the District for the fiscal year ended June 30, 2021.

Regular instruction constituted 52.6%, operation and maintenance 9.1%, student activities 8.4%, and pupil services 5.9% of total expenses for governmental activities during the fiscal 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 III 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.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Management's Discussion and Analysis - Continued

Table III
Total and Net Cost of Services
Years Ended June 30,

	Total Cost		Net Cost	
	2021	2020	2021	2020
Regular Instruction	\$ 3,991,570	\$ 3,606,194	\$ 3,300,726	\$ 3,290,490
Special Instruction	348,377	278,176	348,377	278,176
Vocational Instruction	268,012	252,368	210,764	197,556
Pupil Services	450,043	429,117	450,043	429,117
General Administration Services	181,782	175,634	181,782	175,634
School Administration Services	230,789	210,312	230,789	210,312
Operation and Maintenance	688,632	771,095	688,632	771,095
Pupil Transportation	222,494	278,508	139,050	162,865
Student Activities	634,039	545,658	375,143	338,628
School Food Services	385,388	396,516	4,418	54,968
Community Services	90,940	82,444	88,940	81,444
Interest and Other Charges	94,204	94,380	94,204	94,380
Total Expenses	<u>\$ 7,586,270</u>	<u>\$ 7,120,402</u>	<u>\$ 6,112,868</u>	<u>\$ 6,084,665</u>

Financial Analysis of the Governmental Funds

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

The District's governmental funds had total revenue of \$7,541,135 and expenditures of \$7,126,567 for the fiscal year ended June 30, 2021. The unassigned fund balance of the District's general fund was \$1,249,076.

General Fund Budgetary Highlights

During the year, revenues were more than budgetary estimates by \$425,435, expenditures were more than budgetary estimates by \$151,656 and ending fund balance was more than budgetary estimates by \$267,204.

Additional information on the Hillsboro Public School District No. 9 budget can be found in Note 2 of the audited financial statements that follow this analysis.

Capital Assets

As of June 30, 2021, the Hillsboro Public School District No. 9 had \$6,759,409 invested in capital assets. Table IV shows the balances at June 30, 2021 and 2020.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
Years Ended June 30,

	2021	2020
Land	\$ 23,500	\$ 23,500
Buildings and Improvements	6,429,336	6,649,891
Vehicles	135,950	90,638
Equipment	170,623	186,328
Total Capital Assets	<u>\$ 6,759,409</u>	<u>\$ 6,950,357</u>

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Management’s Discussion and Analysis - Continued

This total represents a net decrease of \$190,948 in capital assets from the prior fiscal year. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 8 of the audited financial statements that follow this analysis.

Debt Administration

As of June 30, 2021, the Hillsboro Public School District No. 9 had \$3,216,816 of total debt, a net decrease of \$183,437 from the previous fiscal year.

Table V
Outstanding Debt
Years Ended June 30,

	Total Outstanding		Due Within One Year	
	2021	2020	2021	2020
General Obligation Bonds Payable	\$ 3,216,816	\$ 3,396,924	\$ 180,168	\$ 179,180
Capital Leases Payable	-	3,329	-	3,329
Total	\$ 3,216,816	\$ 3,400,253	\$ 180,168	\$ 182,509

For additional information regarding the outstanding debt, readers are referred to Note 9 of the audited financial statements that follow this analysis.

For the Future

The District will utilize the ESSER funds to hire two additional strategists. The Board has been in the talks of securing land for the future or updating our current facilities and will hire a demographer to start the process. There are plans for maintenance projects such as roof repairs, carpeting and upgrading the heating and cooling software at the HEC. New copiers will be needed in both buildings. The District will use ESSER II and III to fund some of these projects.

The new negotiated contract will start in 2021-22. The District joined NDPHIT for their health insurance through BCBS and other benefits. Due to COVID, increasing salaried employees will need to be addressed in order to retain our current employees and attract new employees. We continue to upgrade and update our technology needs.

Contacting the Districts Financial Management

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the Hillsboro Public School District No. 9’s finances and to show the District’s accountability for the money it receives to provide the best possible education to all students enrolled in Hillsboro Public School District No. 9. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Vicky Grothmann at P.O. Box 579, Hillsboro, North Dakota, 58045, (701) 636-4360.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

STATEMENT OF NET POSITION
June 30, 2021

ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 2,338,145
Accounts Receivable	123,137
Due from County	2,835
Due from State Government	33,909
Due from Federal Government	170,074
Inventories	5,832
Taxes Receivable	87,331
Total Current Assets	2,761,263
Capital Assets	
Non-depreciable	
Land	23,500
Depreciable, net of accumulated depreciation	
Buildings and Improvements	6,429,336
Vehicles	135,950
Equipment	170,623
Total Capital Assets	6,759,409
Total Assets	9,520,672
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pension & OPEB	2,079,742
Total Assets and Deferred Outflows of Resources	11,600,414
LIABILITIES	
Current Liabilities	
Accounts Payable	55,352
Interest Payable	36,183
Current Portion of Long-term Debt	
General Obligation Bonds Payable	180,168
Total Current Liabilities	271,703
Due After One Year	
General Obligation Bonds Payable	3,036,648
Compensated Absences	66,644
Pension & OPEB Liability	7,246,427
Total Long-term Liabilities	10,349,719
Total Liabilities	10,621,422
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions & OPEB	782,242
Total Liabilities and Deferred Inflows of Resources	11,403,664
NET POSITION	
Net Investment in Capital Assets	3,542,593
Restricted	1,311,117
Unrestricted (Deficit)	(4,656,960)
Total Net Position	\$ 196,750

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Regular Instruction	\$ 3,991,570	\$ 39,747	\$ 651,097	\$ (3,300,726)
Special Instruction	348,377	-	-	(348,377)
Vocational Instruction	268,012	-	57,248	(210,764)
Pupil Services	450,043	-	-	(450,043)
General Administration Services	181,782	-	-	(181,782)
School Administration Services	230,789	-	-	(230,789)
Operation and Maintenance	688,632	-	-	(688,632)
Pupil Transportation	222,494	-	83,444	(139,050)
Student Activities	634,039	258,896	-	(375,143)
School Food Services	385,388	39,456	341,514	(4,418)
Community Services	90,940	-	2,000	(88,940)
Interest and Other Charges	94,204	-	-	(94,204)
	<u>\$ 7,586,270</u>	<u>\$ 338,099</u>	<u>\$ 1,135,303</u>	(6,112,868)
General Revenues				
Taxes				
				1,486,023
				143,597
				205,137
				4,069,430
				19,763
				153,036
				<u>6,076,986</u>
				Change in Net Position (35,882)
				Net Position, Beginning of Year 232,632
				<u>Net Position, End of Year \$ 196,750</u>

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service	Capital Projects		
ASSETS					
Cash and Cash Equivalents	\$ 1,097,904	\$ 456,229	\$ 577,264	\$ 206,748	\$ 2,338,145
Accounts Receivable	70,090	-	-	53,047	123,137
Due from County	2,257	225	321	32	2,835
Due from State Government	33,909	-	-	-	33,909
Due from Federal Government	170,074	-	-	-	170,074
Due from Other Funds	42,462	-	-	-	42,462
Taxes Receivable	72,464	5,782	8,259	826	87,331
Inventories	-	-	-	5,832	5,832
Total Assets	1,489,160	462,236	585,844	266,485	2,803,725
LIABILITIES					
Accounts Payable	55,352	-	-	-	55,352
Due to Other Funds	-	-	-	42,462	42,462
Total Liabilities	55,352	-	-	42,462	97,814
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	72,464	5,782	8,259	826	87,331
Total Deferred Inflows of Resources	72,464	5,782	8,259	826	87,331
FUND BALANCE					
Nonspendable	-	-	-	5,832	5,832
Restricted	112,268	456,454	577,585	186,126	1,332,433
Assigned	-	-	-	31,239	31,239
Unassigned	1,249,076	-	-	-	1,249,076
Fund Balance	1,361,344	456,454	577,585	223,197	2,618,580
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,489,160	\$ 462,236	\$ 585,844	\$ 266,485	\$ 2,803,725

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021**

Total Fund Balance - Governmental Funds		\$ 2,618,580
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	11,911,071	
Less Accumulated Depreciation	<u>(5,151,662)</u>	
Net Capital Assets		6,759,409
Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.		
		87,331
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.		
Interest Payable	(36,183)	
Compensated Absences	(66,644)	
General Obligation Bonds Payable	(3,216,816)	
Pension and OPEB Liability (net of related outflows and inflows)	<u>(5,948,927)</u>	
Total Long-term Liabilities		<u>(9,268,570)</u>
Total Net Position of Governmental Activities		<u><u>\$ 196,750</u></u>

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service	Capital Projects		
REVENUES					
Local Sources	\$ 1,843,837	\$ 144,170	\$ 205,957	\$ 60,051	\$ 2,254,015
State Sources	4,191,987	-	-	1,218	4,193,205
Federal Sources	580,820	-	-	340,296	921,116
Interest Income	19,693	-	-	70	19,763
Miscellaneous Income	138,673	-	-	14,363	153,036
Total Revenues	6,775,010	144,170	205,957	415,998	7,541,135
EXPENDITURES					
Current					
Regular Instruction	3,513,537	-	-	-	3,513,537
Special Instruction	342,042	-	-	-	342,042
Vocational Instruction	268,012	-	-	-	268,012
Pupil Services	450,043	-	-	-	450,043
General Administration Services	181,782	-	-	-	181,782
School Administration Services	230,789	-	-	-	230,789
Operation and Maintenance	551,863	-	-	-	551,863
Pupil Transportation	278,830	-	-	-	278,830
Student Activities	557,625	-	-	-	557,625
School Food Services	3,369	-	-	382,019	385,388
Community Services	87,230	-	-	-	87,230
Debt Service					
Principal	3,329	180,108	-	-	183,437
Interest and Other Charges	13	95,976	-	-	95,989
Total Expenditures	6,468,464	276,084	-	382,019	7,126,567
Excess (Deficiency) of Revenues over Expenditures	306,546	(131,914)	205,957	33,979	414,568
OTHER FINANCING SOURCES (USES)					
Operating Transfer In	-	171,150	-	-	171,150
Operating Transfer Out	-	-	(171,150)	-	(171,150)
Total Other Financing Sources (Uses)	-	171,150	(171,150)	-	-
NET CHANGE IN FUND BALANCE	306,546	39,236	34,807	33,979	414,568
FUND BALANCE, BEGINNING OF YEAR	1,054,798	417,218	542,778	189,218	2,204,012
FUND BALANCE, END OF YEAR	\$ 1,361,344	\$ 456,454	\$ 577,585	\$ 223,197	\$ 2,618,580

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2021

Net Change in Fund Balance - Total Governmental Funds		\$	414,568
The change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.			
			(190,948)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.			
Net Increase in Compensated Absences	(2,809)		
Net Increase in Pension Liability	(451,168)		
Net Decrease in Interest Payable	1,785		
			(452,192)
Repayment of debt principal and other long-term liabilities is an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statement of net position.			
			183,437
Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of an increase in taxes receivable.			
			9,253
Change in Net Position of Governmental Activities		\$	<u>(35,882)</u>

See Notes to Financial Statements

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hillsboro Public School District No. 9, Hillsboro, North Dakota (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying financial statements present the activities of the Hillsboro Public School District No. 9. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the Hillsboro Public School District No. 9 to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on Hillsboro Public School District No. 9.

Based on these criteria, there are no component units to be included within the Hillsboro Public School District No. 9 as a reporting entity.

B. Basis of Presentation, Basis of Accounting

Government-wide statements - The statement of net position and the statement of activities display information about the primary government (Hillsboro Public School District No. 9). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, fees and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements - The fund financial statements provide reports on the financial condition and results of operations for governmental fund categories. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

1. *General Fund* – The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. *Debt Service Fund* – Used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.
3. *Capital Projects Fund* – Used to account for financial resources related to capital outlays made by the District.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

Additionally, the District reports the following governmental fund types that are included in nonmajor funds:

1. Governmental Funds

- a. *Special Reserve Fund* – Used to account for resources restricted to, or designated for, specific purposes by the District.
- b. *Food Service Fund* – Used to account for food service revenues and expenditures.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Government Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

E. Inventories

Inventory consists of food service supplies not consumed as of June 30, 2021 reported in the food service fund. Reported inventories net of deferred revenue are offset by a fund balance reserve to indicate they do not constitute "available spendable resources" even though they are a component of net current assets.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

F. Capital Assets

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

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

<u>Assets</u>	<u>Years</u>
Building	25 – 50
Playground equipment/fences/shelving/bleachers	20
Food service equipment/tractors	15
Sound systems/projectors/sports machines/mats	10
School buses/vehicles	8
Office/computer/other equipment	5

G. Vacation Pay, Sick Pay, Severance

Sick leave benefits are earned at the rate of 10 days per year regardless of the years of service. Employees may carry over a maximum of 90 days of sick leave and the superintendent may carry over 75 days of sick leave at June 30th of each year. Certified and administrative personnel will be paid \$25 per unused day after 6 years in the District, \$50 per unused day after 20 years in the District, and \$75 per unused day after 30 years in the District. Certified personnel with 10 or less years of service are granted 2 days of personal leave, cumulative to a total of 5 days. Certified personnel less than ten years of services are granted 3 of personal leave, cumulative to a total of 5 days. The District pays employees \$120 per day for excess personal days. A liability for the vested portion of compensated absences related to sick and personal leave is reported in the government-wide statement of net position.

H. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the government activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material. In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I. Pension Plans

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

J. 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.

K. Fund Balance

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

1. Nonspendable
 - a. Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. They include items such as, but not limited to, inventories, prepaid items, or the permanent principal of endowment funds.
2. Restricted
 - a. Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed
 - a. A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.
4. Assigned
 - a. Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes but are under the direction of the board and the business manager.
5. Unassigned
 - a. Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

It is the policy of the District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the District to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

L. 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.

M. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

Expenditures over Appropriations – General fund expenditures were more than appropriations by \$151,656. Expenditures for regular instruction, vocational instruction, and student activities exceeded budgeted amounts. Expenditures in excess of budgeted amounts were offset by revenues in excess of budgeted amounts from state and federal sources.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board. At year end June 30, 2021, the District's carrying amounts of deposits was \$2,338,145 and the bank balances were \$2,637,728. Of the bank balances, \$750,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk:

The District may invest idle funds as authorized in North Dakota Statues, as follows:

1. Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
2. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
3. Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
4. Obligations of the state.

As of June 30, 2021, the District held certificates of deposit of \$653,240.

Interest Rate Risk:

The District does not have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk:

The District does not have a limit on the amount it may invest in any one issuer.

NOTE 4 – TAXES RECEIVABLE

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

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts for accrued interest and amounts on open account from other school districts and organizations for goods and services furnished by the District. No allowance has been established for uncollectible accounts.

NOTE 6 – DUE FROM COUNTY

Due from county represents the amount of taxes collected prior to year-end that are distributed to the District shortly after June 30, 2021.

NOTE 7 – DUE FROM STATE AND FEDERAL GOVERNMENT

The amount due from state and federal government consists of a reimbursement claim for various projects and Title Programs. Title programs are passed through the state.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

NOTE 8 – CAPITAL ASSETS

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

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Total Capital Assets, not being depreciated	23,500	-	-	23,500
Capital Assets, being depreciated				
Buildings and Improvements	10,423,319	-	-	10,423,319
Vehicles	701,185	85,900	-	787,085
Equipment	664,417	12,750	-	677,167
Total Capital Assets, being depreciated	11,788,921	98,650	-	11,887,571
Less Accumulated Depreciation for:				
Buildings and Improvements	3,773,428	220,555	-	3,993,983
Vehicles	610,547	40,588	-	651,135
Equipment	478,089	28,455	-	506,544
Total Accumulated Depreciation	4,862,064	289,598	-	5,151,662
Total Capital Assets Being Depreciated, net	6,926,857	(190,948)	-	6,735,909
Governmental Activities Capital Assets, net	\$ 6,950,357	\$ (190,948)	\$ -	\$ 6,759,409

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

Governmental Activities:	
Regular Instruction	\$ 24,056
Special Instruction	6,335
Operation and Maintenance	136,769
Pupil Transportation	42,314
Student Activities	76,414
Community Services	3,710
Total Depreciation Expense - Governmental Activities	\$ 289,598

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

NOTE 9 – LONG-TERM LIABILITIES

During the year ended June 30, 2021, the following changes occurred in liabilities reported in long-term liabilities:

	Long-term Liabilities at July 1, 2020	Increases	Decreases	Long-term Liabilities at June 30, 2021	Due Within One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 3,396,924	\$ -	\$ (180,108)	\$ 3,216,816	\$ 180,168
Capital Leases Payable	3,329	-	(3,329)	-	-
Compensated Absences*	63,835	2,809	-	66,644	-
Pension & OPEB Liability*	5,925,450	1,320,977	-	7,246,427	-
Total - Governmental Activities	<u>\$ 9,389,538</u>	<u>\$ 1,323,786</u>	<u>\$ (183,437)</u>	<u>\$ 10,529,887</u>	<u>\$ 180,168</u>

*The change in compensated absences and pension and OPEB liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Outstanding debt at June 30, 2021, are comprised of the following individual issues:

1. Series 2015A General Obligation Bonds – From an original issuance of \$810,000 at rates of 2.00% to 3.50%, \$630,000 remains outstanding. Principal and interest are payable through August 1, 2034.
2. Series 2015B General Obligation Bonds – From an original issuance of \$450,000 at rates of 2.00% to 3.50%, \$350,000 remains outstanding. Principal and interest are payable through August 1, 2034.
3. Series 2015C General Obligation Bonds – From an original issuance of \$1,725,000 at rates of 1.50% to 3.25%, \$1,370,000 remains outstanding. Principal and interest are payable through August 1, 2035.
4. Series 2016 General Obligation Bonds – From an original issuance of \$1,050,000 at 5% with an interest rate buy down of 3% from the Bank of North Dakota, \$866,816 remains outstanding. Principal and interest are payable through February 1, 2036.

The debt service requirements are as follows:

\$810,000 General Obligation School Building Bonds, Series 2015A

(Dated July 8, 2015, Due serially to August 1, 2034)

(Interest paid semiannually on August and February 1st)

Year Ending June 30,	Rate	Principal	Interest	Payment
2022	2.00%	\$ 40,000	\$ 19,650	\$ 59,650
2023	2.00%	40,000	18,850	58,850
2024	2.00%	40,000	17,850	57,850
2025	3.00%	40,000	16,650	56,650
2026	3.00%	40,000	15,450	55,450
2027-2031	3.00% - 3.50%	225,000	56,164	281,164
2032-2035	3.50%	205,000	14,610	219,610
Totals		<u>\$ 630,000</u>	<u>\$ 159,224</u>	<u>\$ 789,224</u>

Bonds maturing on August 1, 2024 and thereafter are subject to optional redemption on August 1, 2023 and any date thereafter at a price of par plus accrued interest.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

\$450,000 General Obligation School Building Bonds, Series 2015B

(Dated July 8, 2015, Due serially to August 1, 2034)
(Interest paid semiannually on August and February 1st)

<u>Year Ending June 30,</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2022	2.00%	\$ 20,000	\$ 11,000	\$ 31,000
2023	2.00%	20,000	10,600	30,600
2024	2.00%	20,000	10,100	30,100
2025	3.00%	20,000	9,500	29,500
2026	3.00%	25,000	8,825	33,825
2027-2031	3.00% - 3.50%	125,000	31,875	156,875
2032-2035	3.50%	120,000	8,400	128,400
Totals		<u>\$ 350,000</u>	<u>\$ 90,300</u>	<u>\$ 440,300</u>

Bonds maturing on August 1, 2024 and thereafter are subject to optional redemption on August 1, 2023 and any date thereafter at a price of par plus accrued interest.

\$1,750,000 General Obligation School Building Bonds, Series 2015C

(Dated October 28, 2015, Due serially to August 1, 2035)
(Interest paid semiannually on August and February 1st)

<u>Year Ending June 30,</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2022	1.50%	\$ 70,000	\$ 38,750	\$ 108,750
2023	2.00%	70,000	37,525	107,525
2024	2.00%	75,000	36,075	111,075
2025	2.00%	75,000	34,575	109,575
2026	3.00%	80,000	32,625	112,625
2027-2031	3.00%	430,000	125,475	555,475
2032-2036	3.25.00%	570,000	51,023	621,023
Totals		<u>\$ 1,370,000</u>	<u>\$ 356,048</u>	<u>\$ 1,726,048</u>

Bonds maturing on August 1, 2024 and thereafter are subject to optional redemption on August 1, 2023 and any date thereafter at a price of par plus accrued interest.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

\$1,050,000 General Obligation School Building Bonds, Series 2016

(Dated August 1, 2017, Due serially to February 1, 2036)

(Interest paid semiannually on August and February 1st)

Year Ending June 30,	Rate	Principal	Interest	Payment
2022	2.00%	\$ 50,168	\$ 17,115	\$ 67,283
2023	2.00%	51,177	16,106	67,283
2024	2.00%	52,206	15,078	67,284
2025	2.00%	53,255	14,029	67,284
2026	2.00%	54,326	12,958	67,284
2027-2031	2.00%	228,443	47,964	276,407
2032-2036	2.00%	377,241	17,786	395,027
Totals		<u>\$ 866,816</u>	<u>\$ 141,036</u>	<u>\$ 1,007,852</u>

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivables of \$87,331. Deferred inflows of resources on the statement of net position consist of related pension expense of \$782,242.

NOTE 11 – DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the fund financial statements consist of amounts for which liability recognition criteria have been met, but for which expense recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred outflows of resources on the statement of net position consist of related pension expense of \$2,079,742.

NOTE 12 – RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and auto coverage and \$134,640 for public assets coverage.

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

The District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health and boiler and machinery insurance. Settled claims resulting from these above risks have not exceeded insurance coverage in any of the past three fiscal years.

The District has elected to be self-insured and retain all risk for liabilities resulting from claims of unemployment benefits. During the year ended June 30, 2021, no claims were filed for unemployment benefits.

NOTE 13 – PENSION PLANS

North Dakota Teacher's Fund for Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-Grandfathered

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

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

Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9

Notes to Financial Statements – Continued

sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Re-funded 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 \$5,574,946 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 calculation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At June 30, 2020 the District's proportion was .364255% which was a decrease of .013055% from its proportion measured as of June 30, 2019. For the year ended June 30, 2021, the District recognized pension expenses of \$578,391. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements – Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,150	\$ 209,216
Changes in assumptions	250,922	-
Net difference between projected and actual investment earnings	344,149	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	92,427	264,785
Employer contributions subsequent to the measurement date	365,769	-
Totals	<u>\$ 1,054,417</u>	<u>\$ 474,001</u>

\$365,769 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

<u>Year ended June 30</u>	
2022	\$ 92,655
2023	54,335
2024	82,710
2025	37,097
2026	(43,024)
Thereafter	(9,128)

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 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.

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Notes to Financial Statements – Continued

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

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equities	58%	6.90%
Global Fixed Income	23%	1.30%
Global Real Assets	18%	5.00%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.25% percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2020, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2020. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2020.

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

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

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 7,425,528	\$ 5,574,946	\$ 4,037,017

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 multi-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. Member 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.

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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

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 of \$25
13 to 24 months of service	Greater of two percent of monthly salary of \$25
25 to 36 months of service	Greater of three percent of monthly salary of \$25
Longer than 36 months of service	Greater of four percent of monthly salary of \$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 \$1,629,324 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 .051790%, which was a decrease of .000667% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$279,465. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,340	\$ 82,559
Changes in assumptions	873,421	144,398
Net difference between projected and actual investment earnings	52,586	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,271	77,328
Employer contributions subsequent to the measurement date	40,862	-
Totals	<u>\$ 1,010,480</u>	<u>\$ 304,285</u>

\$40,862 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

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 ended June 30</u>	
2022	\$ 203,979
2023	174,919
2024	134,531
2025	151,904
2026	-
Thereafter	-

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	3.50% 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. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	30%	6.30%
International Equity	21%	6.85%
Private Equity	7%	9.75%
Domestic Fixed Income	23%	1.25%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.01%
Cash Equivalentents	0%	0.00%

Discount Rate

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

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

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

	1% Decrease (3.64%)	Current Discount Rate (4.64%)	1% Increase (5.64%)
District's proportionate share of the net pension liability	\$ 2,113,926	\$ 1,629,324	\$ 1,232,802

Pension Plan Fiduciary Net Position

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

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS

North Dakota Public Employees Retirement System

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

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

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

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.

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

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

At June 30, 2021, the District reported a liability of \$42,157 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 .05011%, which was a decrease of .00433% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021 the District recognized OPEB expense of \$5,727. 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	\$ 935	\$ 1,011
Changes in assumptions	5,653	-
Net difference between projected and actual investment earnings	1,450	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	959	2,945
Employer contributions subsequent to the measurement date	5,848	-
Totals	<u>\$ 14,845</u>	<u>\$ 3,956</u>

\$5,848 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 ended 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 ended June 30:</u>	
2022	\$ 1,015
2023	1,390
2024	1,321
2025	875
2026	347
Thereafter	93

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Notes to Financial Statements – Continued

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.10%
Small Cap Domestic Equities	6%	7.00%
Domestic Fixed Income	40%	1.15%
International Equities	21%	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, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of The District’s Proportionate Share of the Net OPEB Liability to Change 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 55,290	\$ 42,157	\$ 31,052

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Notes to Financial Statements – Continued

NOTE 15 – JOINT VENTURE

The District participates in the following joint venture:

Griggs-Steele-Traill Special Education Unit - Formed for the purpose of providing special education services to the member school Districts. The Co-op’s governing board is composed of representatives from the member school districts, who are superintendents. The Board is responsible for adopting the Co-op’s budget and setting service fees at a level adequate to fund the adopted budget. The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above. Separate financial statements for this joint venture are available from Griggs-Steele-Traill Special Education Unit.

NOTE 16 – NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its food service program. The market value of commodities received for the year ended June 30, 2021 was \$24,450.

NOTE 17 – TRANSFERS

The following is a summary of transfers for the year ended June 30, 2021:

Fund	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects	\$ -	\$ 171,150
Debt Service	<u>171,150</u>	<u>-</u>
Totals	<u>\$ 171,150</u>	<u>\$ 171,150</u>

The transfer from the capital projects fund to the debt service fund is used for debt service expenditures from mills collected in the building fund.

NOTE 18 – CONCENTRATIONS

The District receives a substantial amount of its support from federal and state governments. A significant reduction in this support may have a material effect on the District's programs and its continued operations.

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

The District implemented GASB Statement No. 84, Fiduciary Activities. As a result, beginning net position has been restated to reflect the related fund balance of resources as of July 1, 2020 and general fund balance have been restated as follows:

Net Position July 1, 2020 as previously reported	\$ 153,044
Restatement for fiduciary accounting:	
Student Activity Fund Balance	<u>79,588</u>
Net position July 1, 2020 as restated	<u>\$ 232,632</u>
General Fund Balance July 1, 2020 as previously reported	\$ 975,210
Restatement for fiduciary accounting:	
Student Activity Fund Balance	<u>79,588</u>
General Fund Balance July 1, 2020 as restated	<u>\$ 1,054,798</u>

NOTE 20 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 23, 2022, the date on which the financial statements were available to be issued.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 1,791,073	\$ 1,791,073	\$ 1,843,837	\$ 52,764
State Sources	4,090,704	4,090,704	4,191,987	101,283
Federal Sources	288,740	288,740	580,820	292,080
Interest Income	29,058	29,058	19,693	(9,365)
Miscellaneous Income	150,000	150,000	138,673	(11,327)
Total Revenues	6,349,575	6,349,575	6,775,010	425,435
EXPENDITURES				
Current				
Regular Instruction	3,437,483	3,437,483	3,513,537	(76,054)
Special Instruction	342,513	342,513	342,042	471
Vocational Instruction	242,751	242,751	268,012	(25,261)
Pupil Services	452,123	452,123	450,043	2,080
General Administration Services	179,221	179,221	181,782	(2,561)
School Administration Services	221,481	221,481	230,789	(9,308)
Operation and Maintenance	570,583	570,583	551,863	18,720
Pupil Transportation	284,627	284,627	278,830	5,797
Student Activities	499,510	499,510	557,625	(58,115)
School Food Services	-	-	3,369	(3,369)
Community Services	82,416	82,416	87,230	(4,814)
Principal	4,100	4,100	3,329	771
Interest and Other Charges	-	-	13	(13)
Total Expenditures	6,316,808	6,316,808	6,468,464	(151,656)
Excess of Revenues over Expenditures	32,767	32,767	306,546	273,779
OTHER FINANCING SOURCES (USES)				
Operating Transfer Out	(6,575)	(6,575)	-	(6,575)
Total Other Financing Sources (Uses)	(6,575)	(6,575)	-	(6,575)
NET CHANGE IN FUND BALANCE	26,192	26,192	306,546	267,204
FUND BALANCE, BEGINNING OF YEAR			1,054,798	
FUND BALANCE, END OF YEAR			<u>\$ 1,361,344</u>	

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

PENSION SCHEDULES
Year Ended June 30, 2021

Schedule of Employer's Share of Net Pension Liability
ND Teacher's Fund for Retirement (TFFR)
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.36425%	0.37731%	0.38901%	0.38281%	0.37816%	0.37955%	0.36555%
District's proportionate share of the net pension liability (asset)	5,574,946	5,196,525	5,184,947	5,257,982	5,540,262	4,963,912	3,829,949
District's covered-employee payroll	2,657,830	2,646,943	2,644,524	2,583,852	2,456,998	2,334,605	2,120,182
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	209.76%	196.32%	196.06%	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.40%	65.50%	65.50%	63.20%	59.20%	62.10%	66.60%

Schedule of Employer Contributions
ND Teacher's Fund for Retirement (TFFR)
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	338,876	337,485	337,177	329,441	313,267	297,648	227,917
Contributions in relation to statutorily required contribution	(338,876)	(337,485)	(337,177)	(329,441)	(313,267)	(297,648)	(227,917)
Contribution deficiency (excess)	-	-	-	-	-	-	-
Employer's covered-employee payroll	2,657,830	2,646,943	2,644,524	2,583,852	2,456,998	2,334,605	2,120,182
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	10.75%

*Complete data for these schedules is not available prior to 2015

**The measurement date of the net pension liability is June 30th of the prior year

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Pension Schedules – Continued

Schedule of Employer's Share of Net Pension Liability
North Dakota Public Employees Retirement System (PERS)
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.51790%	0.05846%	0.05613%	0.05690%	0.04737%	0.05320%	0.05581%
District's proportionate share of the net pension liability (asset)	1,629,324	685,158	947,238	914,489	461,618	361,758	354,257
District's covered-employee payroll	571,306	608,049	576,620	580,809	477,327	473,954	470,154
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	285.19%	112.68%	164.27%	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	48.91%	71.66%	62.80%	61.98%	70.46%	77.70%	78.18%

Schedule of Employer Contributions
North Dakota Public Employees Retirement System (PERS)
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	40,453	44,270	42,471	42,116	34,558	36,001	33,475
Contributions in relation to statutorily required contribution	(41,950)	(42,991)	(42,953)	(44,213)	(33,779)	(33,440)	(33,475)
Contribution deficiency (excess)	(1,497)	1,279	(482)	(2,097)	779	2,561	-
Employer's covered-employee payroll	571,306	608,049	576,620	580,809	477,327	473,954	470,154
Contributions as a percentage of covered-employee payroll	7.34%	7.07%	7.45%	7.61%	7.08%	7.06%	7.12%

*Complete data for these schedules is not available prior to 2015

**The measurement date of the net pension liability is June 30th of the prior year

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Pension Schedules – Continued

Schedule of Employer's Share of Net OPEB Liability
North Dakota Public Employees Retirement System (PERS)
Last 10 Fiscal Years*

	2021	2020	2019	2018
District's proportion of the net pension liability (asset)	0.05011%	0.05449%	0.05270%	0.05369%
District's proportionate share of the net pension liability (asset)	42,157	43,767	41,502	42,467
District's covered-employee payroll	571,306	608,049	576,620	580,809
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.38%	7.20%	7.20%	7.31%
Plan fiduciary net position as a percentage of the total pension liability	63.38%	63.13%	61.89%	59.78%

Schedule of Employer Contributions
North Dakota Public Employees Retirement System (PERS)
Last 10 Fiscal Years*

	2021	2020	2019	2018
Statutorily required contribution	6,712	7,072	6,763	6,751
Contributions in relation to statutorily required contribution	(6,708)	(6,872)	(6,877)	(7,079)
Contribution deficiency (excess)	4	200	(114)	(328)
Employer's covered-employee payroll	571,306	608,049	576,620	580,809
Contributions as a percentage of covered-employee payroll	1.17%	1.13%	1.19%	1.22%

*Complete data for these schedules is not available prior to 2018

**The measurement date of the net pension liability is June 30th of the prior year

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The School Board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- The annual budget must be prepared, and District taxes must be levied on or before the 15th day of August of each year.
- The taxes levied must be certified to the county auditor by October 10th.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Business Manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

NOTE 2 – NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT CHANGES OF ASSUMPTIONS

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.
- The pre-retirement mortality table was updated to the PubT-2010 Employee table projected with generational improvement using Scale MP-2019.

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

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

NOTE 3 – NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM CHANGES OF ASSUMPTIONS

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.

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 7.50% to 7.00%.
- The assumed rate of price inflation was lowered from 2.50 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.

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

NOTE 4 – NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM CHANGE OF ASSUMPTIONS OPEB

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.

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.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

NONMAJOR GOVERNMENTAL FUNDS – COMBINING BALANCE SHEET
June 30, 2021

	<u>Special Reserve</u>	<u>Food Service</u>	<u>Total Other Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 186,094	\$ 20,654	\$ 206,748
Accounts Receivable	-	53,047	53,047
Due from County	32	-	32
Inventories	-	5,832	5,832
Taxes Receivable	826	-	826
	<u>186,952</u>	<u>79,533</u>	<u>266,485</u>
LIABILITIES			
Due to Other Funds	-	42,462	42,462
	<u>-</u>	<u>42,462</u>	<u>42,462</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	826	-	826
	<u>826</u>	<u>-</u>	<u>826</u>
FUND BALANCE			
Nonspendable	-	5,832	5,832
Restricted	186,126	-	186,126
Assigned	-	31,239	31,239
	<u>186,126</u>	<u>37,071</u>	<u>223,197</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 186,952</u>	<u>\$ 79,533</u>	<u>\$ 266,485</u>

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

**NONMAJOR GOVERNMENTAL FUNDS – COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**
Year Ended June 30, 2021

	Special Reserve	Food Service	Total Other Governmental Funds
REVENUES			
Local Sources	\$ 20,595	\$ 39,456	\$ 60,051
State Sources	-	1,218	1,218
Federal Sources	-	340,296	340,296
Interest Income	-	70	70
Miscellaneous Income	-	14,363	14,363
Total Revenues	20,595	395,403	415,998
EXPENDITURES			
Current			
School Food Services	-	382,019	382,019
Total Expenditures	-	382,019	382,019
Excess of Revenues over Expenditures	20,595	13,384	33,979
FUND BALANCE, BEGINNING OF YEAR	165,531	23,687	189,218
FUND BALANCE, END OF YEAR	\$ 186,126	\$ 37,071	\$ 223,197



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

School Board
Hillsboro Public School District No. 9
Hillsboro, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance 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 Hillsboro Public School District No. 9, as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise the Hillsboro Public School District No. 9's basic financial statements, and have issued our report thereon dated June 23, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillsboro Public School District No. 9'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 Hillsboro Public School District No. 9'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsboro Public School District No. 9's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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*.

District's Response to Findings

Hillsboro Public School District No. 9's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hillsboro Public School District No. 9'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.



Nadine Julson, LLC
Wahpeton, North Dakota
June 23, 2022

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

SCHEDULE OF CURRENT YEAR FINDINGS
Year ended June 30, 2021

2021-001 INADEQUATE SEGREGATION OF DUTIES

Criteria

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the District.

Effect or Potential Effect

Without sufficient segregation of duties, the risk significant increases that errors and fraud related to cash receipts, disbursements, and reconciliations, including misappropriation of assets, could occur and not be detected within a timely basis.

Cause

The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding and we understand that this will be a repeated recommendation due to the limited amount of resources of the District. The District will segregate functions where feasible.

2021-002 MATERIAL JOURNAL ENTRIES

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Schedule of Current Year Findings - Continued

Effect or Potential Effect

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to financial statements that are materially correct without the assistance of the auditors.

Recommendation

We recommend the District be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. As a compensating control, the District should establish an internal control policy to document annual review of the financial statements and to review a financial statement disclosure checklist.

Views of Responsible Officials

The District will continue to have the auditor prepare the financial statements. It is currently not cost-effective for management to perform the preparation.

HILLSBORO PUBLIC SCHOOL DISTRICT NO. 9
Hillsboro, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2021

Prior Financial Statement Findings:

2020-001

A material weakness was reported for inadequate segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This material weakness continues to exist under the current audit findings as finding number 2021-001.

2020-002

A material weakness was reported for financial statement preparation.

Corrective Action Plan

The accounting functions should be reviewed to determine if it is feasible for the District to prepare its own financial statements. This material weakness continues to exist under the current audit findings as number 2021-002.