

**MONTPELIER PUBLIC SCHOOL DISTRICT
MONTPELIER, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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MONTPELIER PUBLIC SCHOOL DISTRICT
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
AS OF JUNE 30, 2021

Tony Roorda	President
Scott Harms	Vice President
Robert Froelich	Board Member
Abram Valenta	Board Member
Wade Dally	Board Member
Lynn Boom	Board Member
Jeff Jensen	Board Member
Amy Maurer	Business Manager
Jerry Waagen	Superintendent

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Montpelier Public School District
Montpelier, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Montpelier Public School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 modified cash basis financial position of the governmental activities, and each major fund of Montpelier Public School District, as of June 30, 2021, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Emphasis of Matter

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The roster of school officials is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

July 5, 2022

MONTPELIER PUBLIC SCHOOL DISTRICT
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2021

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 817,503
Total Current Assets	817,503
Non-Current Assets:	
Capital Assets	1,339,795
Less Accumulated Depreciation	566,207
Total Non-Current Assets	773,588
TOTAL ASSETS	1,591,091
NET POSITION	
Net Investment in Capital Assets	773,588
Restricted for Student Activities	25,945
Restricted for Capital Projects	73,673
Unrestricted	717,885
TOTAL NET POSITION	\$ 1,591,091

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES				
Business Support Services	\$ 72,230	\$ -	\$ -	\$ (72,230)
Instructional Support Services	34,327	-	-	(34,327)
Administration	243,357	-	-	(243,357)
Operations and Maintenance	169,365	-	-	(169,365)
Transportation	308,445	-	75,311	(233,134)
Regular Instruction	1,063,296	-	301,483	(761,813)
Special Education	89,617	-	-	(89,617)
Vocational Education	27,180	-	-	(27,180)
Extra-Curricular Activities	19,326	11,949	-	(7,377)
Food Services	86,776	6,744	77,931	(2,101)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,113,919	\$ 18,693	\$ 454,725	(1,640,501)
GENERAL REVENUES				
Property Taxes, Levied for General Purposes				464,687
Property Taxes, Levied for Capital Projects				12,584
Aids and Payments from the State				1,183,155
Unrestricted Investment Earnings				766
Other Revenues				9,387
TOTAL GENERAL REVENUES				1,670,579
Change in Net Position				30,078
Net Position - Beginning				1,561,013
Net Position - Ending				\$ 1,591,091

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2021

	General Fund	Building Fund	Food Service Fund	Total Governmental Funds
ASSETS				
Cash	\$ 729,306	\$ 73,673	\$ 14,524	\$ 817,503
TOTAL ASSETS	\$ 729,306	\$ 73,673	\$ 14,524	\$ 817,503
FUND BALANCES				
Restricted	\$ 25,945	\$ 73,673	\$ -	\$ 99,618
Assigned	-	-	14,524	14,524
Unassigned	703,361	-	-	703,361
TOTAL FUND BALANCES	729,306	73,673	14,524	817,503
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 729,306	\$ 73,673	\$ 14,524	\$ 817,503

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2021

Total fund balance - governmental funds \$ 817,503

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

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

Cost	\$ 1,339,795	
Less: Accumulated Depreciation	566,207	
Net	<u>773,588</u>	<u>773,588</u>

Net Position - Governmental Activities \$ 1,591,091

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Building Fund	Food Service Fund	Total Governmental Funds
REVENUES				
Local Property Taxes	\$ 464,687	\$ 12,584	\$ -	\$ 477,271
Other Local Sources	20,937	-	6,744	27,681
Revenue from State Sources	1,259,666	-	166	1,259,832
Revenue from Federal Sources	296,284	-	77,765	374,049
Interest	757	-	9	766
TOTAL REVENUES	2,042,331	12,584	84,684	2,139,599
EXPENDITURES				
Current:				
Business Support Services	72,230	-	-	72,230
Instructional Support Services	34,327	-	-	34,327
Administration	243,357	-	-	243,357
Operations and Maintenance	136,641	9,824	-	146,465
Transportation	242,927	-	-	242,927
Regular Instruction	1,058,898	-	-	1,058,898
Special Education	89,617	-	-	89,617
Vocational Education	27,180	-	-	27,180
Extra-Curricular Activities	19,326	-	-	19,326
Food Services	-	-	86,776	86,776
Capital Outlay:				
Capital Outlay	65,245	-	-	65,245
TOTAL EXPENDITURES	1,989,748	9,824	86,776	2,086,348
Excess (Deficiency) of Revenues Over Expenditures	52,583	2,760	(2,092)	53,251
OTHER FINANCING SOURCES (USES)				
Sale of Capital Asset	875	-	-	875
TOTAL OTHER FINANCING SOURCES (USES)	875	-	-	875
Net Change in Fund Balances	53,458	2,760	(2,092)	54,126
Fund Balances - Beginning of Year	675,848	70,913	16,616	763,377
Fund Balances - End of Year	<u>\$ 729,306</u>	<u>\$ 73,673</u>	<u>\$ 14,524</u>	<u>\$ 817,503</u>

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Total net change in fund balances - Governmental Funds \$ 54,126

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

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

Capital Outlay	\$ 65,245	
Depreciation Expense	<u>(84,895)</u>	(19,650)
Net book value of capital assets disposed		<u>(4,398)</u>
Change in Net Position - Governmental Activities		<u>\$ 30,078</u>

See Notes to the Financial Statements

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Reporting Entity

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Montpelier Public School District (District) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Basis of Presentation:

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

Government-Wide Financial Statements:

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements display information about the District as a whole.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end.

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

As a general rule, the effect of inter-fund activity has been eliminated from the District-wide statements.

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

Fund Financial Statements:

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

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The District's major governmental funds are as follows:

General Fund

This fund is the general operating fund of the District. It accounts for all financial resources except those legally or administratively required to be accounted for in other funds, including the Student Activity Fund.

Building Fund

The Building fund is used to account for building construction and repairs.

Food Service Fund

This Food Service fund is used to account for the accumulation of revenue and proceeds and for the payments of expenditures related to the providing of meals at the District.

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Non-major Governmental Funds:

Typically, aggregated information for the non-major funds is reported in a single column in the fund financial statements; currently, however, all funds for the District are considered major in the fund financial statements so there are no non-major funds in the District's financial statements.

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

Basis of Accounting:

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

In the government-wide statement of net position and statement of activities, activities are presented using the modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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 position 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.

Budgets and Budgetary Accounting:

The District's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School District, annually on or before the last day of July must levy taxes. The governing body of the School District may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year. Taxes for School District purposes must be based upon an itemized budget statement which must show the complete expenditure by program of the District for the current fiscal year and the sources of the revenue from which it is to be financed. The School Board, in levying taxes, is limited by the amount necessary to be raised for the purpose of meeting the appropriations included in the school budget of the current fiscal year.

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

1. Based upon available financial information and requests by the school board, the superintendent and business manager prepares the school district budget. The budget is prepared for the general fund on the modified cash basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15th of each year. The budget is then filed with the county auditor by August 25th of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10th of each year. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Cash and Cash Equivalents:

The District included amounts in demand deposits and money market accounts to be cash equivalents.

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Investments:

Investments are recorded at market value. North Dakota State statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) Obligations of the state.

Fair Value Measurements:

The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

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

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

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

Capital Assets:

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$5,000. Donated capital assets are recorded at their acquisition values at the date received. The District does not have any infrastructure assets. Improvement that significantly extend the useful life of the asset are also capitalized.

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

Permanent Buildings	50 Years
Temporary or Wood Structures	20 Years
Vehicles	5-15 Years
Equipment	5 Years

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

Long-Term Obligations:

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the governmental 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance Classifications:

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

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

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

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

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

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

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

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

The school board has not set a General Fund minimum fund balance.

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. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

Inter-fund Activity:

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.

Revenue Recognition - Property Taxes:

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

Estimates:

The preparation of the financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Expenses and Expenditures:

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

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 3 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits:

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

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

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any District, District, 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 June 30, 2021, the carrying amount of the District's deposits was \$817,503 and the bank balance was \$867,753. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The District may also invest idle funds as authorized by North Dakota laws, as follows:

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

Interest Rate Risk:

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

Concentration of Credit Risk:

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

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the capital asset during the year:

Governmental Activities	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 800,824	\$ -	\$ -	\$ 800,824
Vehicles and Equipment	498,726	65,245	25,000	538,971
Total Capital Assets Being Depreciated	<u>1,299,550</u>	<u>65,245</u>	<u>25,000</u>	<u>1,339,795</u>
Less Accumulated Depreciation				
Buildings and Improvements	288,847	21,370	-	310,217
Vehicles and Equipment	213,067	63,525	20,602	255,990
Total Accumulated Depreciation	<u>501,914</u>	<u>84,895</u>	<u>20,602</u>	<u>566,207</u>
Net Capital Assets Being Depreciated	<u>797,636</u>	<u>(19,650)</u>	<u>4,398</u>	<u>773,588</u>
Net Capital Assets for Governmental Activities	<u>\$ 797,636</u>	<u>\$ (19,650)</u>	<u>\$ 4,398</u>	<u>\$ 773,588</u>

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

	Depreciation	Additions
Operations and Maintenance	\$ 22,900	\$ 8,345
Transportation	61,995	56,900
Total	<u>\$ 84,895</u>	<u>\$ 65,245</u>

NOTE 5 FUND BALANCES

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

	General Fund	Building Fund	Food Service	Total
Restricted for:				
Student Activities	\$ 25,945	\$ -	\$ -	\$ 25,945
Capital Projects	-	73,673	-	73,673
Assigned to:				
Food Service	-	-	14,524	14,524
Unassigned				
General Fund	703,361	-	-	703,361
Total Restricted	<u>\$ 729,306</u>	<u>\$ 73,673</u>	<u>\$ 14,524</u>	<u>\$ 817,503</u>

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 6 LONG-TERM DEBT

The District has no outstanding debt.

NOTE 7 DEFINED BENEFIT PENSION PLANS - STATEWIDE

North Dakota Teacher's Fund For Retirement

The school district contributes to the North Dakota Teachers Fund for retirement (TFFR), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 15-39.1 of the North Dakota Century Code. TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. Detailed information about the report may be obtained on the NDPERS website <http://ndpers.nd.gov/about/financial/annual-report-archive/>.

Plan members are required to contribute 11.75% of their annual covered salary and the District is required to contribute 12.75% of the teacher's salary. The contributions requirements of plan members and the District are established and may be amended by the State legislature. The District's contributions to TFFR for the fiscal years ended June 30, 2021, 2020 and 2019 were \$106,048, \$103,863, and \$103,129, respectively.

NOTE 8 RISK MANAGEMENT

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

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

The District has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 9 CONTINGENT LIABILITIES

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

NOTE 10 NON-MONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2021 was \$4,971.

NOTE 11 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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

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

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

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

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

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

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).

MONTPELIER PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter

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

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District’s year end. Subsequent events have been evaluated through July 5, 2022, which is the date these financial statements were available to be issued.

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

To the Board of Education
Montpelier Public School District
Montpelier, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Montpelier Public School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montpelier Public School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The District's Response to Findings

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

Purpose of This Report

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



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

July 5, 2022

MONTPELIER PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021

2021-001 Finding

Criteria

An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled appropriately.

Condition

The District has one employee who is responsible for most accounting functions. The business manager collects monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial reports.

Cause

There is one employee for multiple functions such as executing and recording transactions.

Effect

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

Recommendation

We recommend the District review its internal controls over accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

View of Responsible Officials and Planned Corrective Actions

Some procedures to promote segregation of duties have been implemented. Funds are counted by other individuals prior to being given to the Business Manager to receipt and deposit at the financial institution. The Superintendent reviews bills before payments are made. The Board reviews and approves all checks written. The District will segregate other duties when feasible.

MONTPELIER PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

2021-002 Finding

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

View of Responsible Officials and Planned Corrective Actions

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