

**HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
HATTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
ROSTER OF SCHOOL OFFICIALS (UNAUDITED)
JUNE 30, 2022

Toby Handly	President
Mindi Mehus	Vice President
John Jacobson	Board Member
Sigrid Letcher	Board Member
Fred Strand	Board Member
Kevin Beaudoin	Superintendent
Roxanne Phipps	Business Manager

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hatton Eielson Public School District No. 7
Hatton, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Hatton Eielson Public School District No. 7 (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Hatton Eielson Public School District No. 7's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Hatton Eielson Public School District No. 7 as of June 30, 2022, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note 6 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of District's contributions to the TFFR pension plan, and schedule of District's proportionate share of net pension liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022, on our consideration of Hatton Eielson Public School District No. 7's internal control over financial reporting and 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 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 Hatton Eielson Public School District No. 7's internal control over financial reporting and compliance.



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

September 28, 2022

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

The discussion and analysis of Hatton Eielson Public School District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2022. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

Financial Highlights

- The ending fund balance for the District Funds were as follows:

	<u>06/30/22</u>	<u>06/30/21</u>
• General	\$1,191,595	\$1,271,970
• Special Reserve	126,964	98,843
• Capital Projects	40,006	(46,626)
• Debt Service	76,566	55,522
• Food Service	66,981	39,402

- The General Fund had \$3,232,827 in revenue, which primarily consisted of the state and federal funding, property tax levies, state and federal grants, and student activities. There was \$3,313,202 in expenditures, which primarily consisted of salaries, transportation, materials and supplies for instruction.
- The Special Reserve Fund had \$28,121 in revenue, consisting of property tax levies.
- The Capital Projects Fund had \$93,602 in revenue, consisting mainly of property tax levies. There was \$6,970 in expenditures, consisting mainly of a floor tile project.
- The Debt Service Fund had \$398,768 in revenue, consisting of property tax levies. There was \$377,724 in expenditures, consisting of principal and interest payments on outstanding bonds payable.
- The Food Service Fund had \$172,869 in revenue, which consisted of sales of meals and federal reimbursements. There was \$145,290 in expenditures, which consisted of salaries, food, and supplies.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred inflows/outflows and liabilities, with the difference between reported as net position. Over time, increases or 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 showing how the District's net position changed during the most recent fiscal year. 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 this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed asset purchases and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all North Dakota public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. There are currently no activities classified as fiduciary or proprietary funds in the District. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Notes to the 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 the financial statements can be found starting on page 18 of this report.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred inflows exceeded liabilities and deferred outflows by \$1,839,161 as of June 30, 2022.

A large portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position

The following is a comparison of assets, deferred outflows, liabilities, deferred inflows, and net position as presented in the current year to those presented in the prior year.

	2022	2021
Assets		
Current Assets	\$ 1,583,359	\$ 1,502,825
Noncurrent Assets	7,630,420	7,681,455
Total Assets	9,213,779	9,184,280
Deferred Outflows of Resources	329,097	503,159
Liabilities		
Current Liabilities	325,604	317,385
Noncurrent Liabilities	6,691,047	7,714,670
Total Liabilities	7,016,651	8,032,055
Deferred Inflows of Resources	687,064	211,998
Net Position		
Net Investment in Capital and Lease Assets	2,466,780	2,282,449
Restricted	327,169	304,102
Unrestricted (Deficit)	(954,788)	(1,143,165)
Total Net Position	\$ 1,839,161	\$ 1,443,386

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

The following presents comparative changes in net position for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenues		
Program Revenues		
Charges for Services	\$ 222,018	\$ 166,111
Operating Grants and Contributions	615,678	498,599
General Revenues		
Taxes	1,221,681	1,202,583
Federal and State Aid not Restricted to a Specific Function	1,853,857	1,874,450
Other Revenues	10,806	386,001
Interest Income	5,752	7,266
Total Revenues	<u>3,929,792</u>	<u>4,135,010</u>
Expenses		
Instructional Support Services	339,064	68,903
Operations and Maintenance	691,369	769,404
School Food Services	145,290	119,862
Transportation	78,595	76,381
Regular Instruction	1,470,757	1,833,615
Special Education	215,714	199,572
Vocational Education	127,988	128,045
Extra-Curricular Activities	358,334	288,109
Interest on Long-Term Debt and Lease Liabilities	106,906	112,999
Total Expenses	<u>3,534,017</u>	<u>3,596,890</u>
Change in Net Position	395,775	538,120
Net Position - Beginning	<u>1,443,386</u>	<u>813,059</u>
GASB 84 Adjustment	<u>-</u>	<u>92,207</u>
Net Position - Beginning as Restated	<u>1,443,386</u>	<u>905,266</u>
Net Position - Ending	<u>\$ 1,839,161</u>	<u>\$ 1,443,386</u>

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

Capital Assets

As of June 30, 2022, the District had \$7,595,792 invested in capital assets. Following are the balances as of June 30, 2022:

	Balance 06/30/21	Additions	Disposals	Transfer	Balance 06/30/22
Governmental Activities					
Land	\$ 5,693	\$ -	\$ -	\$ -	\$ 5,693
Construction in progress	-	35,000	-	-	35,000
Buildings	8,685,125	98,900	-	-	8,784,025
Equipment	669,827	-	-	-	669,827
Total	<u>9,360,645</u>	<u>133,900</u>	<u>-</u>	<u>-</u>	<u>9,494,545</u>
Less Accumulated Depreciation					
Buildings	1,183,806	173,755	-	-	1,357,561
Equipment	495,384	45,808	-	-	541,192
Total	<u>1,679,190</u>	<u>219,563</u>	<u>-</u>	<u>-</u>	<u>1,898,753</u>
Net Capital Assets for Governmental Activities	<u>\$ 7,681,455</u>	<u>\$ (85,663)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,595,792</u>

Debt Administration

As of June 30, 2022, the District had \$6,940,931 in outstanding debt. The net decrease in the District's debt was \$1,043,100 from June 30, 2021. See below for a description of the District's debt:

Title	Balance 6/30/2021	Additions	Reductions	Balance 6/30/2022	Due within One Year
General Obligation State School Construction Bonds of 2018	\$ 5,399,006	\$ -	\$ 270,043	\$ 5,128,963	\$ 274,199
Compensated Absences	4,332	-	1,723	2,609	-
Net Pension Liability	2,580,693	732,400	1,503,734	1,809,359	-
	<u>\$ 7,984,031</u>	<u>\$ 732,400</u>	<u>\$ 1,775,500</u>	<u>\$ 6,940,931</u>	<u>\$ 274,199</u>

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2022, were \$3,232,827.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$92,809 more than budget or approximately 2.96%.
- The District's total General Fund expenditures for the fiscal year ended June 30, 2022, were \$3,313,202.
- General fund budget expenditures to actual expenditures varied slightly from line item to line item with the ending actual balance being \$288,854 less than budget or approximately 8.02%.

BUDGETARY IMPLICATIONS

First year superintendent Mr. Kevin Beaudoin led the District through a successful year where the District remained open during the COVID-19 pandemic offering all academics and extra-curricular activities without interruption.

With the increasing prices for product and food along with supply chain issues experienced this year, the District saw some relief with the second and third round of Elementary and Secondary School Emergency Relief Fund (ESSER II and ESSER III). These funds were available through the Coronavirus Aid, Relief and Economic Security Act or the CARES Act. ESSER II funds were used for salaries and benefits for teachers responsible for addressing learning loss. ESSER II provided funds for the After School Program which assisted students who suffered learning loss due to intermittent times out of school due to COVID-19. The District also provided an after-school homework club to help with the learning loss needs. The District remodeled the 1962 lockers rooms allowing for easier cleaning and sanitizing methods. Total ESSER II funds used were \$130,605. ESSER III funds totaled \$134,887 which helped pay for converting the elementary wing to the District's new boilers in the high school portion of the building. This eliminated an old fuel oil boiler system thus improving air quality and having a more efficient heating system. There was also a technology upgrade to active panels for the elementary classrooms and the start of installing a new HVAC system in the elementary wing. ESSER III also helped in addressing student learning loss from the pandemic. The District was a recipient of the North Dakota Statewide Literacy Improvement (NDSLII) award which has a reporting period of February 1, 2022 to June 30, 2024. The amount used in fiscal year 2022 was \$18,207 which paid for teacher professional development activities and curriculum.

For the District's Food Services program, the food distribution company the District worked with experienced issues and the District had to scramble to find another company. The District also worked with three different milk companies due to supply chain issues. Students received free meals through the Seamless Summer Operation (SSO). The District also received the Fresh Fruit and Vegetable Program grant for which the District claimed \$4,135 in assistance to run that program for our students. Title I funds of \$40,054 covered partial salaries for the District's Title I teacher. Title IIA and Title IV funds of \$33,078 were combined to Title Transfer which covered a majority of the District's Title I teacher's salary and benefits.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

Other significant board action included: contract approval of all employees; use of \$100,000 of Conrad Heskin Trust proceeds to upgrade the District's playground and name it "Conrad Heskin Playground"; and another \$100,000 of the Conrad Heskin Trust to be given to Hatton Area Dollars for Scholars to continue providing Valedictorian and Salutatorian scholarships, which was the original intention of the trust.

Contacting the District's Financial Management

Questions regarding this report should be directed to Kevin Beaudoin, Superintendent (701) 543-3456 or to Roxanne Phipps, Business Manager (701) 543-3456 or by mail at PO Box 200, Hatton, ND 58240.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,301,378
Prepays	13,037
Accounts Receivable	189,518
Property Taxes Receivable	79,426
Total Current Assets	1,583,359
Non-Current Assets:	
Capital Assets	
Land-Not Being Depreciated	5,693
Construction in Progress-Not Being Depreciated	35,000
Buildings	8,784,025
Equipment	669,827
Less Accumulated Depreciation	(1,898,753)
Total Capital Assets, Net of Depreciation	7,595,792
Lease Assets	
Lease Assets	45,016
Less Accumulated Amortization	(10,388)
Total Lease Assets, Net of Amortization	34,628
Total Non-Current Assets	7,630,420
TOTAL ASSETS	9,213,779
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan -TFFR	329,097
TOTAL DEFERRED OUTFLOWS OF RESOURCES	329,097
LIABILITIES	
Payroll Deductions	23,789
Interest Payable	17,254
Lease Liabilities Due Within One Year	10,362
Bonds Payable Due Within One Year	274,199
Total Current Liabilities	325,604
Long-Term Liabilities	
Lease Liabilities (Net of Current Maturities)	24,315
Bonds Payable (Net of Current Maturities)	4,854,764
Compensated Absences	2,609
Net Pension Liability	1,809,359
Total Non-Current Liabilities	6,691,047
TOTAL LIABILITIES	7,016,651
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan-TFFR	687,064
TOTAL DEFERRED INFLOWS OF RESOURCES	687,064
NET POSITION	
Net Investment in Capital and Lease Assets	2,466,780
Restricted Student Activities	74,161
Restricted for Miscellaneous Levy	5,039
Restricted for Building Projects	43,888
Restricted for Special Reserve	128,129
Restricted for Debt Service	75,952
Unrestricted (Deficit)	(954,788)
TOTAL NET POSITION	\$ 1,839,161

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES				
Instructional Support Services	\$ 339,064	\$ -	\$ -	\$ (339,064)
Operations and Maintenance	691,369	2,285	-	(689,084)
School Food Services	145,290	12,762	160,107	27,579
Transportation	78,595	-	43,642	(34,953)
Regular Instruction	1,470,757	84,057	342,499	(1,044,201)
Special Education	215,714	-	46,746	(168,968)
Vocational Education	127,988	-	22,684	(105,304)
Extra-Curricular Activities	358,334	122,914	-	(235,420)
Interest and Fees on Long-Term Debt and Lease Liabilities	106,906	-	-	(106,906)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,534,017	\$ 222,018	\$ 615,678	(2,696,321)
GENERAL REVENUES				
Property Taxes, Levied for General Purposes				701,307
Property Taxes, Levied for Special Reserve				28,067
Property Taxes, Levied for Capital Projects				93,602
Property Taxes, Levied for Debt Service				398,705
Federal and State Aid not Restricted to a Specific Function				1,853,857
Interest Income				5,752
Other Revenues				10,806
TOTAL GENERAL REVENUES				3,092,096
Change in Net Position				395,775
Net Position-Beginning				1,443,386
Net Position-Ending				\$ 1,839,161

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2022

	General Fund	Special Reserve Fund	Capital Projects Fund	Debt Service Fund	Food Service Fund	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 1,000,254	\$ 126,469	\$ 38,311	\$ 69,363	\$ 66,981	\$ 1,301,378
Prepays	13,037	-	-	-	-	13,037
Accounts Receivable	189,518	-	-	-	-	189,518
Property Taxes Receivable	48,346	1,660	5,577	23,843	-	79,426
TOTAL ASSETS	\$ 1,251,155	\$ 128,129	\$ 43,888	\$ 93,206	\$ 66,981	\$ 1,583,359
LIABILITIES						
Payroll Deductions	\$ 23,789	\$ -	\$ -	\$ -	\$ -	\$ 23,789
TOTAL LIABILITIES	23,789	-	-	-	-	23,789
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Delinquent Taxes	35,771	1,165	3,882	16,640	-	57,458
TOTAL DEFERRED INFLOWS OF RESOURCES	35,771	1,165	3,882	16,640	-	57,458
FUND BALANCES						
Nonspendable for Prepays	13,037	-	-	-	-	13,037
Restricted for Building Projects	-	-	40,006	-	-	40,006
Restricted for Student Activities	74,161	-	-	-	-	74,161
Restricted for Miscellaneous Levy	5,039	-	-	-	-	5,039
Restricted for Special Reserve	-	126,964	-	-	-	126,964
Restricted for Debt Service	-	-	-	76,566	-	76,566
Assigned for School Lunch	-	-	-	-	66,981	66,981
Unassigned	1,099,358	-	-	-	-	1,099,358
TOTAL FUND BALANCES	1,191,595	126,964	40,006	76,566	66,981	1,502,112
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,251,155	\$ 128,129	\$ 43,888	\$ 93,206	\$ 66,981	\$ 1,583,359

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2022

Total fund balances - governmental funds \$ 1,502,112

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.

Land	\$ 5,693	
Construction in Progress	35,000	
Buildings	8,784,025	
Equipment	669,827	
Less: accumulated depreciation	<u>(1,898,753)</u>	7,595,792

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

Cost	45,016	
Less: Accumulated Amortization	<u>(10,388)</u>	
Net		34,628

Net deferred outflows (inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds. (357,967)

Property taxes receivable will be collected during the year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds. 57,458

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Lease Liabilities		(34,677)
Bonds Payable		(5,128,963)
Net Pension Liability		(1,809,359)
Compensated Absences		(2,609)

Interest payable is not due and payable in the current period and, therefore is not reported as a liability in the governmental fund. (17,254)

Total net position - governmental activities \$ 1,839,161

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Governmental Fund Types					Total
	General Fund	Special Reserve Fund	Capital Projects Fund	Debt Service Fund	Food Service Fund	
REVENUES						
Local Property Tax Levies	\$ 697,702	\$ 28,067	\$ 93,602	\$ 398,705	\$ -	\$ 1,218,076
Other Local and County Revenues	225,697	54	-	63	12,762	238,576
Revenue from State Sources	1,966,929	-	-	-	321	1,967,250
Revenue from Federal Sources	342,499	-	-	-	159,786	502,285
TOTAL REVENUES	3,232,827	28,121	93,602	398,768	172,869	3,926,187
EXPENDITURES						
Current:						
Regular Instruction	1,262,613	-	-	-	-	1,262,613
Special Education	215,714	-	-	-	-	215,714
Vocational Education	127,988	-	-	-	-	127,988
Transportation	60,593	-	-	-	-	60,593
Extra-Curricular Activities	358,334	-	-	-	-	358,334
Instructional Support Services	339,064	-	-	-	-	339,064
Operations and Maintenance	684,484	-	6,970	-	-	691,454
Miscellaneous	130,512	-	-	-	-	130,512
School Food Services	-	-	-	-	145,290	145,290
Debt Service:						
Principal Retirement	-	-	-	270,043	-	270,043
Interest and Fees on Long-Term Debt	-	-	-	107,681	-	107,681
Capital Outlay	133,900	-	-	-	-	133,900
TOTAL EXPENDITURES	3,313,202	-	6,970	377,724	145,290	3,843,186
Excess (Deficiency) of Revenues Over (Under) Expenditures	(80,375)	28,121	86,632	21,044	27,579	83,001
Net Change in Fund Balances	(80,375)	28,121	86,632	21,044	27,579	83,001
FUND BALANCE, BEGINNING OF YEAR	1,271,970	98,843	(46,626)	55,522	39,402	1,419,111
FUND BALANCE, END OF YEAR	<u>\$ 1,191,595</u>	<u>\$ 126,964</u>	<u>\$ 40,006</u>	<u>\$ 76,566</u>	<u>\$ 66,981</u>	<u>\$ 1,502,112</u>

See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Total net change in fund balances - governmental funds \$ 83,001

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 estimated useful lives as depreciation expense.

Capital Outlay	\$	133,900	
Depreciation Expense		<u>(219,563)</u>	(85,663)

Lease payments are reported in the governmental funds as expenditures. However, in the statement of activities, those assets are set up as lease assets and amortized over the life of the lease along with interest expenses. In the current period, this resulted in the following difference

Amortization expense - leases	\$	(10,388)	
Interest expense - leases		(134)	
Fund financials expenses - leases		<u>10,473</u>	(49)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position 270,043

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consisted of the (increase)/decrease in:

Compensated Absences	1,723
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 909

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

Net change in unavailable property tax revenue	3,605
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Changes in deferred outflows and inflows of resources related to net pension liability	(649,128)
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Changes in net pension liability	<u>771,334</u>
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Change in net position - governmental activities	<u><u>\$ 395,775</u></u>
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See Notes to the Financial Statements

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Hatton Eielson Public School District No. 7 (The District), in accordance with generally accepted government accounting standards, has developed criteria to determine whether outside agencies with activities which benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the District's financial statements.

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

Government-wide Financial Statements

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

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

The 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. These statements include all the financial activities of the District.

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

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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.

Fund Financial Statements

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

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

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

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

Separate fund financial statements are provided for governmental and fiduciary funds, when present. Major individual governmental funds are reported as separate columns in the fund financial statements. Typically, aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements; currently, however, all funds of the District are considered major in the fund financial statements.

When fund balance resources are available for use, it is the government's policy to use restricted, committed, assigned, and unassigned resources as they are needed in that order.

Governmental Funds

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

General Fund

This fund is the general operating fund of the District and includes student activity programs. It accounts for all financial resources except those requiring to be accounted for in another fund.

Special Reserve Fund

This fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payments of bonds.

Food Service

This fund is used to account for the financial resources associated with the District's food service program.

Non-major Governmental Funds

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Unearned Revenues

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the TFFR pension plan as well as amounts paid to the plans after the measurement date. See Note 4 for more details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable property taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the TFFR pension plan. See Note 4 for more details.

Budgets and Budgetary Accounting

The Board of Education adopts an “appropriated budget” on a basis consistent with GAAP for the General Fund, Special Reserve Fund, Capital Projects Fund, and Food Service Fund.

The District follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. The superintendent prepares the School District budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on a modified accrual basis.
2. The School Board reviews the budget, makes any necessary revisions, and approves the final budget on or before August 10. The final budget must be filed with the county auditor by August 10 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 10, of each year. The budget amounts shown in the schedule are the final authorized amounts as revised.
4. The balance of each appropriation becomes a part of the unappropriated balance at year end.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Cash and Cash Equivalents

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

Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual acquisition value is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District has established a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are typically sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 35 to 50 years for buildings and 10 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Leases

The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District are reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

The District's lease agreements do not include any material residual value guarantees or restrictive covenants.

Property taxes

Property tax levies are set by the School Board each year and are certified to Grand Forks, Traill and Steele counties for collection in the following year. In North Dakota, counties act as collection agents for all property taxes.

The counties spread all levies over taxable property. Property taxes are attached as an enforceable lien on the real estate and become due January 1 of the year following the assessment date. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid.

In the governmental funds, property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. All other taxes are fully offset by unearned revenue because they are not known to be available to finance current expenditures.

Compensated Absences

Each teacher shall have ten (10) school days of sick leave annually, accumulative to eighty (80) school days. Non-certified employees can accumulate up to 30 days. Upon termination, a teacher or non-certified employee who has been in the school system fifteen years or more will be compensated at a rate of \$20 per day for unused sick leave.

Pensions

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

Fund Balance Classifications

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

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

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

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Education.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board of Education and/or management.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, the District's preference is to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

Net Position

In the government-wide financial statements, equity is classified as "net position" and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

Minimum Fund Balance Policy

The Board of Education has formally adopted a fund balance policy for the District.

Inter-fund Activity

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

The District's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond, or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds. The entire bank balance was covered by Federal Depository Insurance or collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

Interest Rate Risk

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

Credit Risk

North Dakota laws restrict allowable investments for public funds in order to safeguard the principal on investments. North Dakota law authorizes political subdivisions including school districts to invest 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, 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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022 was as follows:

	Balance 06/30/21	Additions	Disposals	Transfer	Balance 06/30/22
Governmental Activities					
Land	\$ 5,693	\$ -	\$ -	\$ -	\$ 5,693
Construction in progress	-	35,000	-	-	35,000
Buildings	8,685,125	98,900	-	-	8,784,025
Equipment	669,827	-	-	-	669,827
Total	<u>9,360,645</u>	<u>133,900</u>	<u>-</u>	<u>-</u>	<u>9,494,545</u>
Less Accumulated Depreciation					
Buildings	1,183,806	173,755	-	-	1,357,561
Equipment	495,384	45,808	-	-	541,192
Total	<u>1,679,190</u>	<u>219,563</u>	<u>-</u>	<u>-</u>	<u>1,898,753</u>
Net Capital Assets for Governmental Activities	<u>\$ 7,681,455</u>	<u>\$ (85,663)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,595,792</u>

Construction in progress as of June 30, 2022 was related to the installation of a Mini Split Heat Pump System.

Depreciation expense for the year ended June 30, 2022 was charged to the following governmental functions:

	Depreciation
Transportation	\$ 18,002
Regular Instruction	201,561
Total Depreciation	<u>\$ 219,563</u>

NOTE 4 - PENSION PLAN

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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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 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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2022, the District reported a liability of \$1,809,359 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2021, the Employer's proportion was 0.171722 percent which was an increase of 0.003105 from its proportion measured July 1, 2020.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

For the year ended June 30, 2022, the Employer recognized pension expense of \$45,339. At June 30, 2022, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 12,571	\$ 76,305
Net Investment Income	63,553	-
Difference between projected and actual investment earnings	-	530,168
Changes in proportion	85,430	80,591
Contributions paid to TFFR subsequent to the measurement date	167,543	-
Total	<u>\$ 329,097</u>	<u>\$ 687,064</u>

\$167,543 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

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

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2023	\$ 141,706
2024	120,180
2025	132,964
2026	154,504
2027	(9,202)
Thereafter	(14,642)

Actuarial Assumptions

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.80% to 14.80%, varying by service, including inflation and productivity
Investment rate of return	7.25%, net of investment expenses, including inflation
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 improvements using Scale MP-2019.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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, 2021, funding actuarial valuation for TFFR.

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 TFFR 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 TFFR target asset allocation as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	55.00%	6.90%
Global Fixed Income	26.00%	0.70%
Global Real Assets	18.00%	4.80%
Cash Equivalents	1.00%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent as of June 30, 2021. 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, 2021 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, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2021. 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, 2021.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Pension Liability Sensitivity

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 7.25 percent as of June 30, 2021, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
School's proportionate share of the TFFR net pension liability:	\$ 2,716,819	\$ 1,809,359	\$ 1,055,805

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:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/RIO/Reports/annualreport2021.pdf>

NOTE 5 - LONG-TERM DEBT

The District issued bonds during the year ended June 30, 2019 to provide for the construction of additions and improvements to existing facilities. A summary of long-term debt is as follows:

Title	Balance 6/30/2021	Additions	Reductions	Balance 6/30/2022	Due within One Year
General Obligation State School Construction Bonds of 2018	\$ 5,399,006	\$ -	\$ 270,043	\$ 5,128,963	\$ 274,199
Compensated Absences	4,332	-	1,723	2,609	-
Net Pension Liability	2,580,693	732,400	1,503,734	1,809,359	-
	<u>\$ 7,984,031</u>	<u>\$ 732,400</u>	<u>\$ 1,775,500</u>	<u>\$ 6,940,931</u>	<u>\$ 274,199</u>

The General Obligation State School Construction Bonds of 2018 has a total approved principal amount of \$6,300,000, carries an interest rate of 2%, matures in 2038 and is secured by property taxes.

Compensated absences and net pension liability are generally liquidated by the general fund.

Interest expense was \$107,680 for the year ended June 30, 2022.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Annual debt service requirements to maturity for the long-term debt are as follows:

Year Ending June 30	2018 General Obligation State School Construction Bonds		
	Principal	Interest	Total
2023	\$ 274,199	\$ 103,525	\$ 377,724
2024	279,733	97,990	377,723
2025	285,380	92,344	377,724
2026	291,140	86,584	377,724
2027	297,016	80,707	377,723
2028-2032	1,577,463	311,153	1,888,616
2033-2037	1,743,224	145,397	1,888,621
2038	380,808	7,686	388,494
Total	<u>\$ 5,128,963</u>	<u>\$ 925,386</u>	<u>\$ 6,054,349</u>

NOTE 6 - LEASES

The District leases copy machines and printers at its school location in Hatton, North Dakota. The term of the lease is for a period of 60 months, commencing in fiscal year 2021 and terminating in fiscal year 2026 with a monthly payment of \$872.

Following is the total lease expense for the year ended June 30, 2022:

	Year Ending 6/30/2022
Lease expense	
Amortization expense by class of underlying asset	
Copy Machines and Printers	\$ 10,388
Total amortization expense	10,388
Interest on lease liabilities	134
Variable lease expense	-
Total	<u>\$ 10,522</u>

Following is a schedule of activity of leased assets and lease liabilities for the year ended June 30, 2022:

	7/1/2021	Additions	Modifications & Remeasurements	Subtractions	6/30/2022	Amounts Due Within One Year
Lease Assets						
Copy Machines and Printers	\$ 45,016	\$ -	\$ -	\$ -	\$ 45,016	
Less: Accumulated Amortization						
Copy Machines and Printers	-	(10,388)	-	-	(10,388)	
	<u>\$ 45,016</u>	<u>\$ (10,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,628</u>	
Total Lease Assets, net	<u>\$ 45,016</u>	<u>\$ (10,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,628</u>	
Lease Liabilities	<u>\$ 45,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,339)</u>	<u>\$ 34,677</u>	<u>\$ 10,362</u>

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

Following is a schedule by years of future minimum payments required under the lease:

Year Ending June 30,	Principal	Interest	Total Payments
2023	\$ 10,362	\$ 102	\$ 10,464
2024	10,397	67	10,464
2025	10,433	31	10,464
2026	3,485	2	3,487
Total Future Payments	<u>\$ 34,677</u>	<u>\$ 202</u>	<u>\$ 34,879</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2022, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Contract Commitments

The District has remaining contract commitments for contracts effective as June 30, 2022 for \$28,800 related to the installation of a Mini Split Heat Pump System and an accepted bid of \$152,728 for a playground project.

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. The District carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workforce Safety & Insurance. Other risks are covered by private insurance.

NOTE 9 - SCHEDULE OF TRANSFERS

No transfers between funds were recorded for the year ended June 30, 2022.

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, 2022 was \$11,089.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 11 - NEW PRONOUNCEMENTS

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.

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.

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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

- 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).
- 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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 12 - EXPENDITURES IN EXCESS OF BUDGET

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Food Service Fund	\$ 127,453	\$ 145,290	\$ 17,837

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess has no impact on the financial results of the District.

NOTE 13 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through September 28, 2022, which is the date these financial statements were available to be issued.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Local Property Tax Levies	\$ 719,200	\$ 719,900	\$ 697,702	\$ (22,198)
Other Local and County Revenues	108,300	103,800	225,697	121,897
Revenue from State Sources	1,958,620	1,977,620	1,966,929	(10,691)
Revenue from Federal Sources	537,258	338,698	342,499	3,801
TOTAL REVENUES	3,323,378	3,140,018	3,232,827	92,809
EXPENDITURES				
Regular Instruction	1,196,003	1,268,342	1,262,613	5,729
Special Education	203,952	218,380	215,714	2,666
Vocational Education	130,712	127,987	127,988	(1)
Transportation	53,912	59,062	60,593	(1,531)
Extra-Curricular Activities	222,499	228,277	358,334	(130,057)
Instructional Support Services	204,517	820,857	339,064	481,793
Operations and Maintenance	793,006	879,151	684,484	194,667
Miscellaneous	-	-	130,512	(130,512)
Capital Outlay	-	-	133,900	(133,900)
TOTAL EXPENDITURES	2,804,601	3,602,056	3,313,202	288,854
Excess (Deficiency) of Revenues Over (Under) Expenditures	518,777	(462,038)	(80,375)	381,663
Net Change in Fund Balances	518,777	(462,038)	(80,375)	381,663
OTHER FINANCING SOURCES (USES)				
Transfer to Other Funds	-	-	-	-
Transfer from Other Funds	49,000	49,000	-	(49,000)
TOTAL OTHER FINANCING SOURCES (USES)	49,000	49,000	-	(49,000)
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	567,777	(413,038)	(80,375)	332,663
Fund Balances - Beginning	1,271,970	1,271,970	1,271,970	-
Fund Balances - Ending	\$ 1,839,747	\$ 858,932	\$ 1,191,595	\$ 332,663

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL RESERVE FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Local Property Tax Levies	\$ 29,325	\$ 29,325	\$ 28,067	\$ (1,258)
Other Local and County Revenues	40	40	54	14
TOTAL REVENUES	<u>29,365</u>	<u>29,365</u>	<u>28,121</u>	<u>(1,244)</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>29,365</u>	<u>29,365</u>	<u>28,121</u>	<u>(1,244)</u>
Net Change in Fund Balances	<u>29,365</u>	<u>29,365</u>	<u>28,121</u>	<u>(1,244)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Other Funds	<u>(49,000)</u>	<u>(49,000)</u>	-	49,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(49,000)</u>	<u>(49,000)</u>	<u>-</u>	<u>49,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses)	<u>(19,635)</u>	<u>(19,635)</u>	28,121	47,756
Fund Balances - Beginning	<u>98,843</u>	<u>98,843</u>	<u>98,843</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 79,208</u>	<u>\$ 79,208</u>	<u>\$ 126,964</u>	<u>\$ 47,756</u>

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
BUDGETARY COMPARISON SCHEDULE FOR THE FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Other Local and County Revenues	\$ 15,000	\$ 15,000	\$ 12,762	\$ (2,238)
Revenue from State Sources	-	-	321	321
Revenue from Federal Sources	113,600	113,600	159,786	46,186
TOTAL REVENUES	<u>128,600</u>	<u>128,600</u>	<u>172,869</u>	<u>44,269</u>
EXPENDITURES				
School Food Services	127,453	127,453	145,290	(17,837)
TOTAL EXPENDITURES	<u>127,453</u>	<u>127,453</u>	<u>145,290</u>	<u>(17,837)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,147</u>	<u>1,147</u>	<u>27,579</u>	<u>26,432</u>
Net Change in Fund Balances	1,147	1,147	27,579	26,432
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,147	1,147	27,579	26,432
Fund Balances - Beginning	<u>39,402</u>	<u>39,402</u>	<u>39,402</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 40,549</u>	<u>\$ 40,549</u>	<u>\$ 66,981</u>	<u>\$ 26,432</u>

See Note to the Budgetary Comparison Schedules

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING:

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

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 10th of each year. The budget is then filed with the county auditor by August 10th 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.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR PENSION PLAN
LAST TEN YEARS

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2022	\$ 167,543	\$ (167,543)	\$ -	\$ 1,314,059	12.75%
2021	168,741	(168,741)	-	1,323,462	12.75%
2020	156,867	(156,867)	-	1,230,334	12.75%
2019	153,472	(153,472)	-	1,203,702	12.75%
2018	143,253	(143,253)	-	1,123,556	12.75%
2017	147,438	(147,438)	-	1,156,381	12.75%
2016	144,251	(144,251)	-	1,131,379	12.75%
2015	140,902	(140,902)	-	1,105,167	12.75%

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

See Note to the Required Supplementary Information

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS

Teachers Fund for Retirement

Fiscal Year Ended	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.171722%	\$ 1,809,359	\$ 1,323,461	136.71%	75.70%
2021	0.168617%	2,580,693	1,230,334	209.76%	63.40%
2020	0.171583%	2,363,129	1,203,702	196.32%	65.50%
2019	0.165275%	2,202,883	1,123,556	196.06%	65.50%
2018	0.171323%	2,353,163	1,156,380	203.49%	63.20%
2017	0.174132%	2,551,139	1,131,379	225.49%	59.20%
2016	0.179671%	2,349,836	1,105,167	212.62%	62.10%
2015	0.181927%	1,906,272	1,055,272	180.64%	66.60%

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

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

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 CHANGES OF ASSUMPTIONS

TFFR

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

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

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

- Investment return assumption lowered from 8% 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.

**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
Hatton Eielson Public School District No. 7
Hatton, 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 Hatton Eielson Public School District No. 7 as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Hatton Eielson Public School District No. 7's basic financial statements and have issued our report thereon dated September 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hatton Eielson Public School District No. 7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hatton Eielson Public School District No. 7's internal control. Accordingly, we do not express an opinion on the effectiveness of Hatton Eielson Public School District No. 7's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hatton Eielson Public School District No. 7's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hatton Eielson Public School District No. 7's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Hatton Eielson Public School District No. 7's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. Hatton Eielson Public School District No. 7's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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



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

September 28, 2022

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

2022-001 Finding – Material Weakness

Criteria

A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.

Cause

The organization is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of internal control over financial reporting could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation

We recommend the organization review their internal controls over the 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.

Management's Response

We concur with the auditor's recommendation; however, considering the size of the entity it is not feasible to obtain proper separation of duties.

HATTON EIELSON PUBLIC SCHOOL DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

2022-002 Finding – Significant Deficiency

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Management's Response:

We concur with the auditor's recommendation and will consider the risks and costs associated with the financial statement preparation.