

**FESSENDEN-BOWDON PUBLIC SCHOOL  
DISTRICT NO. 25**

FESSENDEN, NORTH DAKOTA

Basic Financial Statements  
As of  
June 30, 2018  
And  
Independent Auditor's Report



**DEMPSEY ACCOUNTING AND TAX SERVICES P.C.**

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

213 1<sup>st</sup> Avenue South  
Jamestown, ND 58401-4249

509 Main Avenue  
Edgeley, ND 58433-7119

Fessenden-Bowdon Public School District No. 25  
 Fessenden, North Dakota  
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Fessenden-Bowdon Public School District No. 25  
Fessenden, North Dakota

**List of Officials**  
**2017 - 2018**

<u>Officials</u>	<u>Office</u>
Kelly Jones	President
Kent Wolkenhauer	Vice-President
Troy Jones	Member
Reade Neumiller	Member
Monica Mason	Member
Nancy Bollingberg	Superintendent
Michelle Johnson	Business Manager



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Chairman and Board  
Fessenden-Bowdon Public School District No. 25  
Fessenden, North Dakota

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **Fessenden-Bowdon Public School District No. 25**, Fessenden, North Dakota as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

MEMBER OF  
American Institute of Certified Public Accountants  
North Dakota Society of Certified Public Accountants  
AICPA Division for CPA Firms

Fessenden-Bowdon Public School District No. 25  
**INDEPENDENT AUDITOR'S REPORT** (Continued)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of **Fessenden-Bowdon Public School District No. 25**, Fessenden, North Dakota as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension liability and contributions on pages 7 through 12, 40 through 41 and 42 through 46 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.

Fessenden-Bowdon Public School District No. 25  
**INDEPENDENT AUDITOR'S REPORT (Continued)**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2018, on our consideration of **Fessenden-Bowdon Public School District No. 25's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Fessenden-Bowdon Public School District No. 25's** internal control over financial reporting and compliance.

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
August 2, 2018

Fessenden-Bowdon Public School District No. 25  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

The discussion and analysis of **Fessenden-Bowdon Public School District No. 25's** financial performance provides an overview of the financial activities for the year ended June 30, 2018. The intent of the MD&A is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for the year ended June 30, 2018 are as follows:

- Net position of the District increased by \$250,897 as a result of the current year's operations.
- Total revenues from all sources were \$3,280,977.
- Total expenditures were \$3,030,080.
- The District's net position totaled \$1,523,933.
- The District's general fund had \$3,007,472 in total revenues and transfers in and \$2,771,998 in total expenditures and transfers out. Overall the general fund balance increased \$235,474 for the year ended June 30, 2018.

### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The District also includes in this report additional information to supplement the basic financial statements.

### **Government-Wide Financial Statements**

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to the other nonfinancial factors in addition to the financial information provided in this report.



Fessenden-Bowdon Public School District No. 25  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

The second government-wide statement is the *Statement of Activities* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenue provided.

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

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

### **Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. The District's major governmental fund is the General Fund.

### **Governmental Funds**

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

### **Fiduciary Funds**

The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The school district's only fiduciary fund is the School Activity Fund, which is used primarily to segregate money held in trust for student organizations and similar activities. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and liabilities. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Fessenden-Bowdon Public School District No. 25  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

**Financial Analysis of the District as a Whole**

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

The District's net position at fiscal year-end is \$1,523,933. This is a 19.7% increase over last year's net position of \$1,273,036. The following tables provide a summary of the District's net position and the changes in net position at June 30, 2017 and 2018.

**Table 1:** Summary of Net Position

	<u>2017</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets & other assets	\$1,459,035	\$1,713,118
Capital assets (net of accumulated depreciation)	<u>\$1,547,414</u>	<u>\$1,665,747</u>
Total Assets	\$3,006,449	\$3,378,865
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	\$823,441	\$392,742
<b>LIABILITIES</b>		
Current liabilities	\$10,022	9,913
Long term liabilities	\$25,053	12,463
Net pension liability	<u>\$2,433,383</u>	<u>\$2,196,723</u>
Total Liabilities	<u>\$2,468,460</u>	<u>\$2,219,099</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	\$88,394	\$28,575
<b>NET POSITION</b>		
Invested in capital assets	\$1,547,414	\$1,665,747
Restricted for:		
Building fund	\$357,190	\$434,781
Hot lunch fund	\$34,248	\$39,153
Special reserve	\$91,102	\$63,840
Unrestricted	<u>\$(756,918)</u>	<u>\$(679,588)</u>
Total Net Position	<u><u>\$1,273,036</u></u>	<u><u>\$1,523,933</u></u>

Fessenden-Bowdon Public School District No. 25  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
 Unrestricted

**Table 2:** Summary of Change in Net Position

	2017	2018	Amount of change 2017- 2018
<b>REVENUES</b>			
Program revenue			
Charges for services	\$57,810	\$60,070	\$2,260
Operating grants	279,422	229,602	(49,820)
General revenue			
Property taxes	1,181,808	1,271,217	89,409
State aid	1,385,237	1,699,479	314,242
Other	38,197	20,609	(17,588)
Total revenue	<u>2,942,474</u>	<u>3,280,977</u>	<u>338,503</u>
<b>EXPENDITURES</b>			
Instruction	1,503,660	1,566,459	(62,799)
Support services	1,092,007	1,026,921	65,086
Hot lunch program	104,868	108,398	(3,530)
Student activities	121,091	122,500	(1,409)
Pension expense	90,403	205,802	(115,399)
Total expenditures	<u>2,912,029</u>	<u>3,030,080</u>	<u>(118,051)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>			
	<u>\$30,445</u>	<u>\$250,897</u>	<u>\$220,452</u>

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

**Table 3:** Cost of Program Services

	Total Cost for Year Ended June 30, 2018	Net Cost Revenue for Year Ended June 30, 2018
Instruction	\$1,566,459	\$1,487,301
Instructional staff services	218,372	218,372
Administrative services	289,500	289,500
Operations and maintenance	352,825	352,825
Student transportation	166,224	54,603
Hot lunch program	108,398	9,505
Student activities	122,500	122,500
Pension expense	205,802	205,802
Total Expenditures	<u>\$3,030,080</u>	<u>\$2,740,408</u>

Fessenden-Bowdon Public School District No. 25  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Financial Analysis of the District's Governmental Funds**

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

The District derived its revenue from local, state and federal sources. Local financial resources include a general fund property tax levy and services provided to others. State revenues were generated primarily from foundation aid per pupil, state transportation aid, and vocational and handicapped program aid. Federal revenues were received from Title I program aid.

Local Revenue	\$1,297,681
State Revenue	\$1,849,419
Federal Revenue	\$92,842

The District's governmental funds had total revenues of \$3,239,942 and expenditures of \$2,944,854 for the year ended June 30, 2018. As of June 30, 2018, the unassigned fund balance of the District's governmental funds was \$1,140,232.

**General Fund Budget Highlights**

During the course of fiscal year 2018, the District's original budget was not amended. Actual revenue for the year ended June 30, 2018 was \$28,888 more than budgeted. Actual expenditures for the year ended June 30, 2018 were under the original budget by \$154,595. The budget is used as a spending guide, which the District takes seriously.

**Capital Assets**

Fessenden-Bowdon Public School District No. 25's capital asset account consists of the original 2-story building, a building addition, a bus garage, the athletic track and athletic building, improvements to the buildings, computer labs, 8 buses, 1 van, 1 SUV, 1 pickup, 1 mower, 4 copiers, IT equipment and several pieces of kitchen equipment. During the school year, the district used federal and state monies to purchase new technology equipment, office and lunchroom equipment, a truck and repairs to floors and roof. As of June 30, 2018, the District had \$1,665,747 invested in capital assets. As indicated in Note 5, capital assets increased \$285,629 during the fiscal year.

**Debt Administration**

The District leased three Canon copiers from Advanced Business Methods of Minot in December 2016. The lease is for forty-eight months with a monthly payment of \$835.16. The current portion due within one year is \$9,913.00.

**Significant Factors that can affect the Financial Position or Results of Operations in the Future**

The Fessenden-Bowdon Public School District continues to show a slight growth in enrollment due to North Dakota's economic growth. This has resulted in many young families returning to our communities to work and raise their families. This fall we showed an increase in enrollment of 3% in grades PreK-12. An informal census of preschool children in our district shows that we will continue to experience a growth over the next few years, and then project to maintain the current level of enrollment. The current state funding formula is based on enrollment so it has allowed us to operate on a balanced budget. We will continue developing a budget that maintains the current level of education for our students. Maintaining highly qualified staff, keeping current with technology, providing a wide variety of course offerings that help prepare students for college and careers, and maintaining the facility continue to be our top priorities.

We continue to employ staffing to meet the needs of our district and meet all state requirements, but this will continue to be one of our greatest challenges. I am projecting that we may need to increase staffing in the next two years to address mental health issues that are facing our students, as well as the changing instructional needs of kids today. This may include ensuring that we have a counselor on staff as well as a highly-qualified library media specialist.

The 1932 and 1960 buildings are structurally in excellent condition, but they require ongoing maintenance. Last summer M.J.Dalson Company replaced the flat roof with a pitched roof allowing the water to drain properly. Last spring we signed a contract with CTS Energy Group and they are addressing air quality in the facility which includes installing sump pumps in the tunnels to eliminate the standing water which has also resulted in mold in those areas. The tunnels will also be encapsulated to keep that damp air from circulating through the building as it is now. We are replacing the old univents throughout the building, as well as the air handlers in the gymnasiums, with the end goal of improving air quality throughout the building. We have not had fresh air in our building for decades, so this was critical to create a healthy environment for kids and all who work here. As we address these concerns we keep the needs of the students as a top priority and consider those options that will be the most energy efficient for the district. consider those options that will be the most energy efficient for the district.

The board continues to be mindful in the decisions they make by developing a long-term plan, and reviewing it regularly, to keep the facility in excellent condition that can provide a healthy learning environment for many years to come.

**Contacting the District's Financial Management**

This financial report is designed to provide a general overview of Fessenden-Bowdon Public School District No. 25's finances and to show the accountability for the money received. Anyone who has questions about the information contained in this report or is interested in receiving additional information is encouraged to contact Fessenden-Bowdon Public School District No. 25, Box 67, Fessenden, North Dakota 58438; phone (701) 547-3296.

Fessenden-Bowdon Public School District No. 25  
**STATEMENT OF NET POSITION**  
As of June 30, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$1,279,083
Deferred outflows of resources	
Taxes Receivable	40,599
Due from governmental agencies	45,436
Prepaid deposits	348,000
Pension related deferred outflows of resources	392,742
Total current assets and deferred outflows of resources	<u>2,105,860</u>
Noncurrent assets:	
Capital Assets	3,878,118
Less accumulated depreciation	<u>2,212,371</u>
Total noncurrent assets	<u>1,665,747</u>
Total Assets and Deferred Outflows of Resources	<u>3,771,607</u>
<b>LIABILITIES</b>	
Current liabilities	
Due within one year, lease payable	9,913
Long-term liabilities	
Due in more than one year, lease payable	12,463
Net pension liability	2,196,723
Total Liabilities	<u>2,219,099</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related deferred inflows of resources	<u>28,575</u>
Total Deferred Inflows of Resources	<u>28,575</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,665,747
Restricted for	
Building Fund	434,781
Hot Lunch Fund	39,153
Special Reserve Fund	63,840
Unrestricted	<u>(679,588)</u>
Total Net Position	<u>\$1,523,933</u>

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25  
**STATEMENT OF ACTIVITIES**  
For the Year ended June 30, 2018

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants / Contribution	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$1,098,105	\$	\$	(\$1,098,105)
Special programs	468,354		79,158	(389,196)
Total instruction	1,566,459		79,158	(1,487,301)
Support services:				
Instructional staff services	218,372			(218,372)
Administrative services	289,500			(289,500)
Operations and maintenance	352,825			(352,825)
Student transportation	166,224		111,621	(54,603)
Hot lunch program	108,398	60,070	38,823	(9,505)
Student activities	122,500			(122,500)
Pension expense	205,802			(205,802)
Total support services	1,463,621	60,070	150,444	(1,253,107)
<b>Total governmental activities</b>	<b>\$3,030,080</b>	<b>\$60,070</b>	<b>\$229,602</b>	<b>(\$2,740,408)</b>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				1,106,715
Property taxes, levied for building fund				130,573
Property taxes, levied for special reserve fund				33,929
State aid not restricted for specific purposes				
Foundation aid per pupil				1,699,479
State child placement				13,180
Interest income				2,157
Other sources				5,272
<b>Total general revenues</b>				<b>2,991,305</b>
Changes in net position				250,897
Net position, beginning				1,273,036
Net position ending				<b>\$1,523,933</b>

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25

**BALANCE SHEET  
GOVERNMENT FUNDS**

As of June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$921,796	\$357,287	\$1,279,083
Taxes receivable	35,111	5,488	40,599
Prepaid deposits	173,000	175,000	348,000
Due from government agencies	45,436	-	45,436
Total Assets	<u>\$1,175,343</u>	<u>\$537,775</u>	<u>\$1,713,118</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; FUND BALANCES</b>			
Liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of resources			
Unavailable revenue – property taxes	35,115	5,488	40,599
Total deferred inflows of resources	<u>35,111</u>	<u>5,488</u>	<u>40,599</u>
Fund Balances			
Restricted for:			
Hot lunch fund	-	39,153	39,153
Building fund	-	430,485	430,485
Special reserve fund	-	62,649	62,649
Unassigned			
General Fund	1,140,232	-	1,140,232
Total fund balance	<u>1,140,232</u>	<u>532,287</u>	<u>1,672,519</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,175,343</u>	<u>\$537,775</u>	<u>\$1,713,118</u>

The accompanying notes are an integral part of these financial statements.



Fessenden-Bowdon Public School District No. 25  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
 As of June 30, 2018

**Total fund balances - governmental funds** \$1,672,519

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

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

Cost	3,878,118	
Accumulated Depreciation	<u>2,212,371</u>	
Net Capital Assets		1,665,747

Property taxes receivable will be collected after year end, but are not available soon enough to pay for the current period's expenditures and therefore, are reported as deferred inflows of resources in the funds. 40,599

A deferred outflow of resources related to pensions is not considered an asset for the governmental fund financials, but are reported in the governmental activities of the Statement of Net Position

Pension related deferred outflows of resources		392,742
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. The long-term liability consists of:

Lease payable		(22,376)
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A net pension obligation should be reported as a liability in the government-wide Statement of Net Position. Conversely, a net position obligation is not considered to represent a financial liability, therefore, it is not properly reported in a government fund.

Net pension liability		(2,196,723)
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A deferred inflow of resources related to pensions is not considered a liability for the governmental fund financials, but are reported in the governmental activities of the Statement of Net Position.

Pension related deferred inflow of resources		<u>(28,575)</u>
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**Total net position - governmental activities** \$1,523,933

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local sources	\$1,066,787	\$223,465	\$1,290,252
State sources	1,848,424	995	1,849,419
Federal sources	55,014	37,828	92,842
Other sources	7,247	182	7,429
Total revenues	<u>2,977,472</u>	<u>262,470</u>	<u>3,239,942</u>
<b>EXPENDITURES</b>			
Instruction:			
Regular	1,091,349	-	1,091,349
Special Programs	468,354	-	468,354
Total instruction	<u>1,559,703</u>		<u>1,559,703</u>
Support Services:			
Instructional staff services	177,296	-	177,296
Administration services	294,503	-	294,503
Operations and maintenance	248,907	10,213	259,120
Hot lunch program	44,228	64,170	108,398
Student transportation	128,053	-	128,053
Student activities	119,887	-	119,887
Total support services	<u>1,012,874</u>	<u>74,383</u>	<u>1,087,257</u>
Debt Service			
Lease	12,265	-	12,265
Capital outlays	115,156	170,473	285,629
Total expenditures and capital outlays	<u>2,699,998</u>	<u>244,856</u>	<u>2,944,854</u>
Excess (deficiency) of revenues over expenditures	277,474	17,614	295,088
Other financing sources (uses)			
Transfers in	30,000	132,000	162,000
Transfers out	(72,000)	(90,000)	(162,000)
Total other financing sources(uses)	<u>(42,000)</u>	<u>42,000</u>	<u>-</u>
Change in fund balance	235,474	59,614	295,088
Fund balance beginning of year	904,758	472,673	1,377,431
Fund balance end of year	<u>\$1,140,232</u>	<u>\$532,287</u>	<u>\$1,672,519</u>

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

As of June 30, 2018

**Net change in fund balance - total government funds** **\$295,088**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital outlay	285,629	
Depreciation expense	<u>(167,297)</u>	
Excess of Capital outlay over depreciation expense		118,332

Some revenues will not be collected for several months after the District's fiscal year end. These revenues are not considered "available" resources in the government funds. These consist of net change in deferred property taxes. 31,014

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Repayment of debt principal is an expenditure in the governmental funds, but not the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which debt proceeds exceeded repayment of debt. 12,265

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

Pension expense		<u>(205,802)</u>
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**Net change in net position of governmental activities** **\$250,897**

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25  
**STATEMENT OF ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
As of June 30, 2018

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$134,291</u>
<b>Total Assets</b>	<u><u>\$134,291</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$134,291</u>
<b>Total Liabilities</b>	<u><u>\$134,291</u></u>

The accompanying notes are an integral part of these financial statements.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of June 30, 2018

**Note 1 Summary of Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is the standard setting body for established governmental accounting and financial reporting principles. The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Fessenden-Bowdon Public School District No. 25 operates the public schools for the city of Fessenden, North Dakota and surrounding area. The District's accounting policies are described below.

**Reporting Entity** -The Fessenden-Bowdon Public School District No. 25 is the basic level of government which has financial accountability and control over all activities related to the public school education in District No. 25. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable if it appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the Organization; or (2) there is potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. No component units of the District have been excluded from this report.

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

**Government-wide Financial Statements** - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenue includes (1) charges to recipients for goods or services provided by a given program and (2) grants and contributions that are restricted to meeting the

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

operational or capital requirements of a particular program. Revenues which are not classified as program revenues are reported instead as general revenue.

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

**Fund Accounting** - Governmental funds are utilized to account for most of Fessenden-Bowdon Public School District No. 25's government functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds are as follows:

**General Fund** - This fund is the general operating fund of Fessenden-Bowdon Public School District No. 25 and is always classified as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

**Special Revenue Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The District's Special Revenue Fund consists of the School Lunch Fund which is used to account for the operations of the school food service. Any operating deficit generated by this activity is the responsibility of the General Fund.

**Capital Projects Fund** - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The District's Building Fund accounts for special taxes levied for construction and major repairs to the district plant and payment of interest, principal, and other expenditures on the long-term debt.

**Fiduciary Fund** - The reporting focus of fiduciary funds is on net assets and changes in net assets.

**Agency Fund** - The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District's agency fund consists of the Student Activity Fund, which account for the financial transactions related to student activity programs.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting**

**Government-Wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. All assets and liabilities associated with the operation of the District are included in the statement of net position.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Fessenden-Bowdon Public School District No. 25 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Only current assets, current liabilities and fund balances are generally included on the balance sheet.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the differences, Fessenden-Bowdon Public School District No. 25's financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Other Accounting Policies**

**Revenues-Exchange and Non-Exchange Transactions** - Exchange transactions are transactions in which each party gives and receives essential 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.

The District recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Non-exchange transactions include transactions which the District receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

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

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

**Budgets and Budgetary Accounting** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and all special revenue funds.

Fessenden-Bowdon Public School District No. 25's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 25. The final budget was approved September 11, 2017.

The budget may be amended during the year by the Board for any revenues and appropriations not anticipated at the time the budget was prepared however, no amendment changing the taxes levied can be made after October 10. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board. All appropriations lapse at the close of the fiscal year. The balance of the appropriation reverts back to each fund and is available for future appropriation.

To provide a meaningful comparison of the District's actual results compared to the budgeted results, the Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual are prepared on the District's budgetary basis. Under the district's budgetary basis of accounting, revenues are budgeted on the modified accrual basis of accounting.

Expenditures are also budgeted on the modified accrual basis except teachers' salaries and benefits. The District allows teachers to take their compensation in nine or twelve payments. The budget is prepared estimating the entire contract cost regardless when actual payment is made.



Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

All deposits of the school district are made in Board-Designated official depositories and are secured as required by law.

**Deposits and Investments** – The District maintains deposits at depository banks that are members of the Federal Reserve System. North Dakota laws require all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentality's, all bonds and notes guaranteed by United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies, or instrumentality's, or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body, and bonds issued by any other state of the United States or such other securities approved by the banking board. Investments are recorded at fair value. North Dakota state statute authorizes Fessenden-Bowdon Public School District No. 25 to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by financial institution in which 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, and d) obligations of the state.

The District has no investments other than fully insured and collateralized demand and time deposits.

**Receivables** - Taxes receivable consist of current and delinquent uncollected taxes as of June 30, 2018. Due from governmental agencies consists of federal and state aid that has not been received by the end of the fiscal year. No allowance has been established for uncollectible amounts. Prepaid deposits consists of payments made at end of current year that will affect the next school year.

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

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

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies (Continued)**

due dates, the bill becomes delinquent and penalties are assessed. Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes. Property tax revenue in the governmental funds is recognized in compliance with National Council of Governmental Accounting (NCGA) Interpretation 3 “Revenue Recognition – Property Taxes”. This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current periods. Such time thereafter shall not exceed 90 days. Property tax revenue is recorded as revenue in the year the tax is levied in the government-wide financial statements. Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

**Capital Assets** - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental column in the government-wide financial statements but are not reported as assets in the fund financial statements. Capital assets are defined by Fessenden-Bowdon Public School District No. 25 as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The assets are updated for additions and retirements during the District's fiscal year. Donated capital assets are recorded at estimated fair market value at the date received. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Fessenden-Bowdon Public School District No. 25 does not have infrastructure-type assets.

The District's land is capitalized but is not depreciated. Capital assets are depreciated using the straight-line method over the following useful lives:

Building and building improvements	40-50 years
Equipment and vehicles	7-10 years
Office equipment	5-7 years

**Deferred outflows and inflows of resources** – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The District had three items that meet this criterion – a pension related deferral, contributions made to the pension plan in the current fiscal year, and due from governmental agencies. The statement of financial position also reports 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 the future period and so will not be recognized as revenue until then. The District has one item that meets this criterion – a pension related deferral.

Fessenden-Bowdon Public School District No. 25  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Note 1 Summary of Significant Accounting Policies** (Continued)

**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.

**Compensated Absences** - Fessenden-Bowdon Public School District No. 25 has adopted various policies regarding the accumulation of sick leave based on staff categories and full and part-time employment status. Upon termination, no compensation is paid to employees for accumulated sick leave. Earned vacation time is generally required to be used in the year earned. Professional staff is paid \$50 per day for any unused personal leave at year end, up to a maximum accumulated of three days. Reasonable estimation of the resulting liability cannot be met, and there is no accrual made for compensated absences. The amount to be paid from current reserves is not significant and the resulting liability is deemed to be immaterial.

**Accrued Liabilities and Long-Term Obligations** - All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Fessenden-Bowdon Public School District No. 25’s governmental fund financials report only those obligations that will be paid from current financial resources.

**Fund Equity** - Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

***Fund Balance*** – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Reserved fund balances represent fund equity, which are legally segregated for a specific future use or equity that is not an available expendable resource. Unreserved fund balance represents fund equity that is available for appropriation in future periods.

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designations reflect Fessenden-Bowdon Public School District No. 25’s intentions and may be changed by the board as needed. The designations are reported as part of unrestricted fund balance. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Fessenden-Bowdon Public School District No. 25  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Note 1 Summary of Significant Accounting Policies** (Continued)

- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors through the adoption of a resolution. The Board also may modify or rescind the commitment.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the Board has authorized the District’s Superintendent to assign fund balances.
- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The District reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

**Flow Assumptions** – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the District’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the District’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

**Net Position** - Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on Fessenden-Bowdon Public School District No. 25. External restrictions may be imposed through state or local laws, and grant or contract provisions.

**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 accompanying notes. Actual results may differ from those estimates.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 1 Summary of Significant Accounting Policies** (Continued)

**Comparative Data** - Comparative data is not included in Fessenden-Bowdon Public School District No. 25's financial statements.

**Note 2 Cash & Cash Equivalents**

The following is a summary of the cash balances at June 30, 2018:

	Balance per Bank Records	In Transit Items	Balance per District Records
Checking Accounts			
1st International Bank & Trust Fessenden, ND			
General Fund	\$1,745,985	(\$506,055)	\$1,239,930
Hot Lunch Fund	40,187	(1,034)	39,153
Activity Fund	137,958	(3,667)	134,291
Total checking accounts	<u>\$1,924,130</u>	<u>(\$510,756)</u>	<u>\$1,413,374</u>
Cash consists of:			
Governmental funds	1,279,083		
Fiduciary fund	<u>134,291</u>		
Total	<u><u>\$1,413,374</u></u>		

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2018, the District's deposits are fully insured or collateralized with securities held by the financial institutions in the District's name. The school Board approves and designates a list of depository institutions.

**Pledges of Securities by Depository** - Following is a schedule of the amount of money on deposit in the District's bank at June 30, 2018, and the amount of securities the bank has pledged as collateral along with insurance coverage for the deposits:

	Amount on Deposit June 30, 2018	Amount of Pledged and F.D.I.C. and N.C.U.S.I.F. Insurance
1st International Bank & Trust	<u>\$1,924,130</u>	<u>\$2,910,000</u>

All deposits are Category 1 with deposits insured or registered in the name of the District, or securities held by the District or its agent in its name. The pledge of securities and insurance coverage is Not less than the deposits.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 2 Cash & Cash Equivalents (Continued)**

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligation. State statutes authorize the District to invest in (1) Bonds, treasury bill 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; (2) 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; (3) Certificates of deposit fully insured by the federal deposit insurance corporation or by the state; (4) Obligations of the state. All investments are stated at cost.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Certificates of deposit may not be purchased with maturities greater than 365 days from the date of purchase. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

**Note 3 Legal Compliance - Budgets**

The school board has not amended the school district budget. General fund expenditures were under budget by \$154,595. Revenues received were \$28,888 more than budgeted.

**Note 4 Taxes Receivable, Prepaid Deposits and Due from Governmental Agencies**

Taxes Receivable:

General Fund	\$35,111
Building Fund	4,297
Special Reserve Fund	1,191
Total Taxes Receivable	<u>\$40,599</u>

Due from Governmental Agencies:

General Fund	
Career Technology Education	\$15,187
Title I Basic Skills	13,111
Transportation	5,601
Title VI Assessments	1,507
Harvey Public School District	10,030
Total Due from Governmental Agencies & Other Entities	<u>\$45,436</u>

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 4 Taxes Receivable, Prepaid Deposits and Due from Governmental Agencies(Continued)**

Prepaid Deposits:	
General Fund	\$173,000
Building Fund	175,000
Total Prepaid Deposits	<u>\$348,000</u>

**Note 5 Capital Assets**

Capital Asset activity of Fessenden-Bowdon Public District No. 25's governmental activities was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Disposal</u>	<u>Balance End of Year</u>
Governmental Activities				
Land	\$350	-	-	\$350
Building and improvements	2,080,977	194,356	-	2,275,333
Equipment and vehicles	<u>1,511,163</u>	<u>91,273</u>	<u>-</u>	<u>1,602,436</u>
Less Accumulated Depreciation				
Building and improvements	994,037	63,742	-	1,057,779
Equipment and vehicles	<u>1,051,038</u>	<u>103,555</u>	<u>-</u>	<u>1,154,593</u>
Net Capital Assets for				
Governmental Activities	<u>\$1,547,415</u>	<u>118,332</u>	<u>-</u>	<u>\$1,665,747</u>
Total additions to capital assets				\$285,629
Total disposals of capital assets				-
Current year capital outlays as reported on the statement of revenues, expenditures, and changes in fund balance				<u>\$285,629</u>

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 5 Capital Assets (Continued)**

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

Instruction:	
Regular	\$6,746
Operations and maintenance	89,266
Administration services	1,129
Student activities	2,613
Student transportation	38,171
Instructional support	29,372
Total	<u>\$167,297</u>

**Note 6 North Dakota Teachers' Fund for Retirement**

**Summary of Significant Accounting Policies**

*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.

**General Information about the Pension Plan**

***North Dakota Teachers' 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.



**Note 6 North Dakota Teachers' Fund for Retirement** (Continued)

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.

**Note 6 North Dakota Teachers' Fund for Retirement** (Continued)

*Tier 2*

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

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

***Death and Disability Benefits***

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

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

***Member and Employer Contributions***

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

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 6 North Dakota Teachers' Fund for Retirement (Continued)**

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 06/30/2018, the Employer reported a liability of \$2,196,723 for its proportionate share of the net pension liability. The net pension liability was measured as of 07/01/2017 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 07/01/2017, the Employer's proportion was 0.15993316 percent, which is an increase of 0.00037148 from its proportion measured as of 06/30/2017.

For the year ended 06/30/2018, the Employer recognized pension expense of \$205,802. At 06/30/2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,426	\$23,980
Changes of assumptions	156,574	-
Net difference between projected and actual earnings on pension plan investments	30,343	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	60,259	4,595
Employer contributions subsequent to the measurement date (see below)	*137,140	-
Total	<u>\$392,742</u>	<u>\$28,575</u>

\$137,140 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 ended 06/30/2019.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 6 North Dakota Teachers' Fund for Retirement (Continued)**

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

**Year ended June 30:**

2019	\$ 47,578
2020	95,172
2021	65,373
2022	13,097
2023	7,615
Thereafter	(1,809)

**Actuarial assumptions.** The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- \*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.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 6 North Dakota Teachers' Fund for Retirement (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	0.80 %
Global Real Assets	18%	5.20%
Cash Equivalents	1%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. 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, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2017. 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, 2017.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$2,920,582	\$2,196,723	\$1,594,132

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at [www.nd.gov/rio.sib/publications/cafr/default.htm](http://www.nd.gov/rio.sib/publications/cafr/default.htm).

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 7 Federal and State Grants**

In the normal course of operations, Fessenden-Bowdon Public School District No. 25 receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claim would not have a material effect on the overall financial position of the District as of June 30, 2018.

**Note 8 Non-Monetary Transactions**

Fessenden-Bowdon Public School District No. 25 receives food commodities from the federal government to subsidize its hot lunch program. The commodity distribution value received for the year ended June 30, 2018 was \$8,314.

**Note 9 Risk Management**

Fessenden-Bowdon Public School District No. 25 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium to Farmers Union Insurance for its general liability, auto, and inland marine insurance coverage. The coverage is limited to losses of one million dollars per occurrence.

Fessenden-Bowdon Public School District No. 25 also participates in the North Dakota Fire and Tornado Fund. The District pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period.

Fessenden-Bowdon Public School District No. 25 participates in North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 10 Interfund Transfers**

Government Funds:			
Transfers in:	General Fund	\$	30,000
	Building fund	\$	132,000
Transfer out:	Hot lunch fund	\$	30,000
	General fund	\$	72,000
	Special Reserve fund	\$	60,000

Transfers in/out consist of:

\$30,000 from Hot Lunch fund to General fund to cover indirect cost for the current year that relate to school lunch activities. The activities include payroll and related expense.

\$72,000 from General fund to Building fund to cover costs for the current year that relate to repairs and maintenance activities.

\$60,000 from Special Reserve fund to Building fund to cover costs for the current year that relate to repairs and maintenance activities. There is nothing due to or due from any of the funds.

**Note 11 Debt – Long-term Obligations**

A lease was signed by the District with Advanced Business Methods in December 2016 for three Canon copiers. The lease is for forty-eight months and monthly payments are \$826.10. The final payment is December 2021.

The annual requirements to retire the above obligation are:

Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2019	\$9,913.20	\$ 0	\$9,913.20
2020	9,913.20	0	9,913.20
2021	<u>2,550.04</u>	<u>0</u>	<u>2,550.04</u>
Total	<u>\$22,376.44</u>	<u>\$ 0</u>	<u>\$22,376.44</u>

**Note 12 Subsequent Event**

The District entered into a capital lease with US Bancorp Government Leasing and Finance for structural, plumbing, lighting and ventilation upgrades to the building. The terms of the lease require 10 annual payments of \$229,181.17. The interest rate is 3.51% and the first payment is due June 7, 2019. A \$300,000.00 deposit was made on June 30, 2018 so the balance of lease payable is \$1,905,049 and will be included in financial statements for 2018-2019 school year.

Fessenden-Bowdon Public School District No. 25  
**BUDGETARY COMPARISON - GENERAL FUND**  
For the Year Ended June 30, 2018

	Budgeted Amounts		General Fund	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$1,062,172	\$1,062,172	\$1,066,787	\$4,615
Other local sources	9,000	9,000	7,247	(1,753)
State sources	1,840,440	1,840,440	1,848,424	7,984
Federal sources	46,972	46,972	55,014	8,042
Total revenues	<u>\$2,958,584</u>	<u>\$2,958,584</u>	<u>\$2,977,472</u>	<u>\$18,888</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular	\$1,106,028	\$1,106,028	\$1,091,349	\$14,679
Special programs	472,611	472,611	468,354	4,257
Support Services:				
Instructional staff services	271,891	271,891	231,251	40,640
Administration services	321,747	321,747	300,636	21,111
Operations and maintenance	368,015	368,015	316,240	51,775
Student transportation	191,527	191,527	128,053	63,474
Food services	43,762	43,762	44,228	(466)
Student activities	151,012	151,012	119,887	31,125
Total expenditures	<u>\$2,926,593</u>	<u>\$2,926,593</u>	<u>\$2,699,998</u>	<u>\$226,595</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	\$20,000	\$20,000	\$30,000	\$10,000
Transfers out	-	-	(72,000)	(72,000)
Total other financing sources (uses)	<u>\$20,000</u>	<u>\$20,000</u>	<u>(\$42,000)</u>	<u>(\$62,000)</u>
Excess (deficiency) of revenues over expenditures	\$51,991	\$51,991	\$235,474	\$183,483
Fund balance beginning of year	904,758	904,758	904,758	-
Fund balance (deficit) end of year	<u>\$956,749</u>	<u>\$956,749</u>	<u>\$1,140,232</u>	<u>\$183,483</u>

See accompanying notes to the basic financial statements.



Fessenden-Bowdon Public School District No. 25  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**  
As of June 30, 2018

**Note 1 Summary of Significant Budget Policies**

Based upon available financial information and requests by the governing board, the business manager prepares the school district budget. The budget is prepared for the general fund and Special Revenue Fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at fiscal year-end and become a part of the unappropriated balance at year end.

The Board reviews the budget, may make revisions and approves it on or before August 15. The budget must be filed with the county auditor by August 25.

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.

**Note 2 Legal Compliance - Budgets**

The governing board did not amend the school district's budget for the year ending June 30, 2018. General Fund revenues were \$28,888 more than budgeted and expenditures were \$154,595 less than budgeted. No remedial action is anticipated by the District regarding the budget.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2015
1. Employer's proportion of the net pension liability (asset)	0.153494%
2. Employer's proportionate share of the net pension liability (asset)	\$1,608,345
3. Employer's covered-employee payroll	\$890,345
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.6%
5. Plan fiduciary net position as a percentage of the total pension liability	66.6%

\*Complete data for this schedule is not available prior to 2015.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2015
Statutorily required contribution	\$119,834
Contributions in relation to the statutorily required contribution	(119,834)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$939,878
Contributions as a percentage of covered-employee payroll	12.75%

\*Complete data for this schedule is not available prior to 2015.

The accompanying required supplementary information notes are an integral part of this schedule.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2016
1. Employer's proportion of the net pension liability (asset)	0.152800%
2. Employer's proportionate share of the net pension liability (asset)	\$1,998,403
3. Employer's covered-employee payroll	\$939,878
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.6%
5. Plan fiduciary net position as a percentage of the total pension liability	62.1%

\*Complete data for this schedule is not available prior to 2015.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2016
Statutorily required contribution	\$132,181
Contributions in relation to the statutorily required contribution	(\$132,181)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$1,036,712
Contributions as a percentage of covered-employee payroll	12.75%

\*Complete data for this schedule is not available prior to 2015.

The accompanying required supplementary information notes are an integral part of this schedule.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2017
1. Employer's proportion of the net pension liability (asset)	0.15956168%
2. Employer's proportionate share of the net pension liability (asset)	\$2,337,672
3. Employer's covered-employee payroll	\$1,036,712
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%
5. Plan fiduciary net position as a percentage of the total pension liability	59.2%

\*Complete data for this schedule is not available prior to 2015.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2017
Statutorily required contribution	\$137,637
Contributions in relation to the statutorily required contribution	(\$137,637)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$1,079,503
Contributions as a percentage of covered-employee payroll	12.75%

\*Complete data for this schedule is not available prior to 2015.

The accompanying required supplementary information notes are an integral part of this schedule.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2018
1. Employer's proportion of the net pension liability (asset)	0.15993316%
2. Employer's proportionate share of the net pension liability (asset)	\$2,196,723
3. Employer's covered-employee payroll	\$1,079,503
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%
5. Plan fiduciary net position as a percentage of the total pension liability	63.2%

\*Complete data for this schedule is not available prior to 2015.

Fessenden-Bowdon Public School District No. 25  
**Schedule of Employer Contributions**  
**ND Teachers' Fund for Retirement**  
**Last 10 Fiscal Years\***

	2018
Statutorily required contribution	\$137,140
Contributions in relation to the statutorily required contribution	(\$137,140)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$1,075,610
Contributions as a percentage of covered-employee payroll	12.75%

\*Complete data for this schedule is not available prior to 2015.

The accompanying required supplementary information notes are an integral part of this schedule.

Fessenden Bowdon Public School District No. 25  
**Notes to Required Supplementary Information**  
For the Year Ended June 30, 2018

**Changes of assumptions.** Amounts reported in 2016 and later 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.



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

Trusted Accounting Professionals

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

To the Chairman and Board  
Fessenden-Bowdon Public School District No. 25  
Fessenden, 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, the major fund, and the aggregate remaining fund information of **Fessenden-Bowdon Public School District No. 25**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise **Fessenden-Bowdon Public School District No. 25's** basic financial statements, and have issued our report thereon dated August 2, 2018.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Fessenden-Bowdon Public School District No. 25'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 **Fessenden-Bowdon Public School District No. 25's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Fessenden-Bowdon Public School District No. 25's** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we

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identified certain deficiencies in internal control that we consider to be significant deficiencies.

**Financial Statements Preparation – Design Deficiency:**

**Condition:** Management has not identified risks to the preparation of reliable financial Statements. Dempsey Accounting and Tax Services P.C. assists the District’s management preparing financial statements that are presented, including note disclosure in accordance with generally accepted accounting principles.

**Criteria:** Risks should be identified that impact the preparation of reliable financial statements. The COSO framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the financial statements and the management of those risks. As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

**Cause:** Fessenden-Bowdon Public School District No. 25 does not analyze the risks of material misstatements and has not determined how identified risks should be managed. The District Board feels that it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would be necessary.

**Effect:** Lack of identification of possible risks provides an opportunity for fraud to occur and could increase errors and misstatements. This increases the risk of misstatement of the District’s financial condition. Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosure.

**Recommendation:** Design of effective controls and management of those controls over the preparation of the financial statements will aid in prevention and detection of material misstatements, including footnote disclosure. We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosure.

**Lack of Segregation – Design Deficiency:**

**Condition:** One employee collects monies, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial statements.

**Criteria:** There should be sufficient accounting personnel so duties of employees are segregated. COSO states that controls and the monitoring of those controls are important components of risk management. The segregation of duties would provide better control over the assets of the District.

**Cause:** Fessenden-Bowdon Public School District No. 25 has one person responsible for most accounting functions making complete segregation of duties difficult.

**Effect:** A lack of internal controls provides an opportunity for fraud to occur and for increased errors and misstatements. This increases the risk of misstatement of the District’s financial condition.

**Recommendation:** Segregation of duties would provide better control over the assets of the District, however, due to the size of the District it is not feasible to obtain proper segregation of duties.. These functions should be monitored by the Board.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Fessenden-Bowdon Public School District No. 25's** financial statements are free from material misstatement, we performed tests of 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*.

## **Views of responsible Officials**

Fessenden-Bowdon Public School District No. 25's Board realizes it is extremely hard to have the ultimate of internal controls and segregation of duties with a staff of two people and believes that the controls presently in place do a good job of mitigating the risk that the financial statements are misstated. They feel it is not economically feasible to have enough employees hired to provide for the necessary segregation of duties. They believe providing policies and procedures for the accounting function and strong board oversight is adequate. The District Board will continue to request that Dempsey Accounting and Tax Services P.C. assist with preparation of financial statements and disclosures; however, the Board will continue to instruct the District administration to provide all requested schedules and to continue to monitor all financial actions of the District.

Fessenden-Bowdon Public School District No. 25's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
August 2, 2018



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

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701-252-7029 FAX: 701-252-7053

509 Main Avenue  
Edgeley, ND 58433-7119  
701-493-2341 FAX: 701-493-2341

August 2, 2018

To the President and Board  
Fessenden-Bowdon Public School District No. 25  
Fessenden, North Dakota

## MANAGEMENT LETTER

During completion of our audit of the Page Public School District No. 25 for the year ended June 30, 2018, certain observations were made of various policies of the district.

The matters included herein are presented as a matter of record and for your further consideration. This letter is presented to identify areas which should be subjected to your review. You will determine the final course of action to pursue.

1. Accrual Accounting. Generally Accepted Accounting Principles (GAAP) for governmental units requires the modified accrual basis of accounting for all government funds. Revenues should be recognized when received, except year-end adjustments are made for material revenues determined to be both measurable and available as net current assets. We recommend the school district continue recording revenue and expenditure adjustments at year end, if necessary, to ensure that all external reporting is based on a modified accrual basis of accounting. We are available to help with the adjustments.
2. Accounting Personnel. The school district has one business manager. She handles the accounting fund areas (i.e. General, Building, Debt Service, Special Revenue and Activity funds). She collects monies, issues receipts, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledgers and prepares respective financial reports and statements. Due to the size of the entity, it is not feasible to obtain any more separation of duties and therefore, the degree of effective internal controls is severely limited. The superintendent should review the work.

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the governing board, is a matter of public record.

Dempsey Accounting and Tax Services P.C.

*Beth Dempsey CPA*

Beth Dempsey, CPA

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## Communication with Those Charged with Governance at the Conclusion of the Audit

August 2, 2018

To the President and Board  
Fessenden-Bowdon Public School District No. 25  
Fessenden, North Dakota

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **Fessenden-Bowdon Public School District No. 25** for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and if applicable, Government Auditing Standards), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 10, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **Fessenden-Bowdon Public School District No. 25** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2017-2018 year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatement*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements for management to correct.

### *Disagreements with Management*

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representation from management that is included in the management representation letter dated August 2, 2018.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the

underlying accounting records used to prepare the financial statements or to the financial statements themselves. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Board and management of Fessenden-Bowdon Public School District No. 25 and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the governing board, is a matter of public record.

Very truly yours,

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.