

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19

DRAYTON, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2018

---

V. NELSON CPA, LTD.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**TABLE OF CONTENTS**

	<u>Page</u>
List of Officials	1
Independent Auditor's Report	2-4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet Governmental Funds	7
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds	9
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with the Government-Wide Statement of Activities	10
Statement of Assets and Liabilities Fiduciary Funds	11
Notes to Basic Financial Statements	12-41
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Required Supplementary Information Schedule of Employer's Share of Net Pension Liability North Dakota Teachers Fund for Retirement, Schedule of Employer Contributions North Dakota Teachers Fund for Retirement & Notes to Required Supplementary Information for the Year Ended June 30, 2017	42
Schedules of Required Supplementary Information Schedule of Employer's Share of Net Pension Liability North Dakota Public Employees Retirement System, Schedule of Employer Contributions North Dakota Public Employees Retirement System & Notes to Required Supplementary Information for the Year Ended June 30, 2017	43
Schedules of Required Supplementary Information Schedules of Employer's Share of Net OPEB Liability North Dakota Public Employees Retirement System & Schedule of Employer Contributions North Dakota Public Employees Retirement System	44

Notes to the Required Supplementary Information	45
Budgetary Comparison Schedule General Fund	46
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-50
Management Letter	51
Communication with Those Charged with Governance at the Conclusion of the Audit	52-54

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19

**LIST OF OFFICIALS**

2017-2018

President	Michael Emanuelson
Vice-President	Michael Larson
Director	Jessica Aasand
Director	Christine McFarland
Director	Julie Scott
Superintendent	Dean Ralston
Business Manager	Judy Stellan



V. NELSON CPA LTD.

## INDEPENDENT AUDITOR'S REPORT

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

To the School and Board of Directors  
Drayton Public School District No. 19  
Drayton, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, 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 school district'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 school district's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by



management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, as of June 30, 2018, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As discussed in Note 1 and 17 to the financial statements, Drayton Public School District No. 19 adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pensions. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, schedule of employer's share of net pension liability and employer contributions, schedule of employer's share of net OPEB liability and employer contributions, and the notes to the required supplementary information* on pages 42-45 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.

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Drayton Public School District No. 19's basic financial statements. The budgeting comparison information, combining aggregate fund information and the schedule of employer's share of net pension liability are presented for additional analysis and are not a required part of the basic financial statements.

The budgeting comparison information, combining aggregate fund information and the schedule of employer's share of net pension liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgeting comparison information, combining aggregate fund information and the schedule of employer's share of net pension liability are fairly stated, in all material respects in relation to the basic financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020, on our consideration of Drayton Public School District No. 19'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 Drayton Public School District No. 19's internal control over financial reporting and compliance.

✓ V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.

Oakes, North Dakota  
January 30, 2020



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**STATEMENT OF NET POSITION**  
AS OF JUNE 30, 2018

	Governmental
	<u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,670,457
Property Taxes Receivable	57,329
Due from Local Sources	0
Capital Assets	6,519,278
Less Accumulated Depreciation	<u>2,245,714</u>
Total Non Current Assets	4,273,564
Total Assets	<u>\$ 6,001,350</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Derived from Pension & OPEB	900,862
<b>LIABILITIES</b>	
Salaries & Benefits Payable	\$ 10,401
Health Insurance Payable	9,512
Long-Term Liabilities	
Due Within One Year:	
Capital Lease	20,647
Revenue Bonds Payable	145,000
Due After One Year:	
Capital Lease	296,453
Revenue Bonds Payable	2,365,000
Net Pension & OPEB Liability	<u>3,218,094</u>
Total Liabilities	<u>6,065,107</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Derived from Pension & OPEB	168,594
<b>NET POSITION</b>	
Invested in Capital Assets,	
Net of Related Debt	1,446,464
Restricted	
Debt Service	393,518
Capital Projects	113,531
Special Purpose	45,854
Unrestricted	<u>(1,330,856)</u>
Total Net Position	<u>\$ 668,511</u>

See the accompanying notes to the basic financial statements.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Net (Expense) Revenue and Changes In Net Position		
		Charges For Service	Operating Grants/ Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$1,477,560	\$	\$ 61,696	\$(1,415,864)
Special Education	634,662	190,010		(444,652)
Vocational Education	61,844			(61,844)
Total Instruction	2,174,066	190,010	61,696	(1,922,360)
Support Services				
Pupil Services	54,255			(54,255)
Instructional Staff Services	108,746			(108,746)
General Admin. Services	378,745			(378,745)
School Admin. Services	143,879			(143,879)
Business Services	3,203			(3,203)
Operation & Maint. of Plant	393,397		3,249	(390,148)
Pupil Transportation Services	167,139		58,885	(108,254)
Extracurricular	134,065	10,898	0	(123,167)
Food Services Outlays	169,915	37,736	71,907	(60,272)
Other Support Services	62,796			(62,796)
Interest on Long-Term Debt	59,468	0	0	(59,468)
Total Support Services	1,675,608	48,634	134,041	(1,492,933)
Total Governmental Activities	\$3,849,674	\$238,644	\$195,737	\$(3,415,293)

**General Revenues**

Property Taxes:	
Taxes Levied for General Purposes	925,746
Taxes Levied for High School Tuition	53,690
Taxes Levied for Capital	120,122
Taxes Levied for Bonds	223,335
Taxes Levied for Special Reserve	31,892
Unrestricted State Grant	1,827,984
Interest Earnings	1,027
Gain on Sale of Capital Assets	0
Miscellaneous Revenue	44,764
Total General Revenues	\$ 3,228,560
Change in Net Position	\$ (186,733)
Net Position July 1	870,709
Prior Period Adjustments	(15,465)
Net Position July 1, as Restated	855,244
Net Position June 30	\$ 668,511

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
AS OF JUNE 30, 2018

Major Funds

	General Fund	Capital Projects Fund	Bond Sinking Fund	Special Reserve Fund	Other Govern- mental	Total Govern- mental Funds
<b>Assets:</b>						
Cash and Cash Equivalents	\$1,117,384	\$113,531	\$393,518	\$ 38,909	\$ 7,115	\$1,670,457
Property Taxes Receivable	41,229	5,141	9,594	1,365		57,329
Due from Other Sources						
<b>Total Assets</b>	<u>\$1,158,613</u>	<u>\$118,672</u>	<u>\$403,112</u>	<u>\$ 40,274</u>	<u>\$ 7,115</u>	<u>\$1,727,786</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>						
<b>Liabilities</b>						
Salaries & Benefits Payable	10,231	0			170	10,401
Health Insurance Payable	\$ 9,512	\$ 0	\$ 0	\$ 0	\$ 170	\$ 9,512
<b>Total Liabilities</b>	19,743	0	0	0	170	19,913
<b>Deferred Inflows of Resources</b>						
Uncollected Taxes	41,229	5,141	9,594	1,365	0	57,329
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>60,972</u>	<u>5,141</u>	<u>9,594</u>	<u>1,365</u>	<u>170</u>	<u>77,242</u>
<b>Fund Balances</b>						
Restricted for						
Debt Service			393,518			393,518
Capital Projects		113,531				113,531
Committed						
Special Reserve			0	38,909	6,945	45,854
Unassigned	1,097,641	0				1,097,641
<b>Total Fund Balances</b>	<u>1,097,641</u>	<u>113,531</u>	<u>393,518</u>	<u>38,909</u>	<u>6,945</u>	<u>1,650,544</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$1,158,613</u>	<u>\$118,672</u>	<u>\$403,112</u>	<u>\$ 40,274</u>	<u>\$ 7,115</u>	<u>\$1,727,786</u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 AS OF JUNE 30, 2018

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

Total Fund Balances For Governmental Funds	\$ 1,650,544
--	--------------

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	\$6,519,278	
Less Accumulated Depreciation	<u>2,245,714</u>	
Net Capital Assets		4,273,564

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 revenues in the funds.	57,329
--	--------

Deferred outflows and inflows or resources, related to pensions and OPEB are applicable to future periods and therefore are not reported in the governmental funds.

Deferred Outflows Related to Pensions & OPEB	900,862
Deferred Inflows Related to Pensions & OPEB	(168,594)

Long term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. These long-term liabilities consisted of Bonds Payable and Capital Leases.

Capital Lease Payable	(317,100)
Bonds Payable	(2,510,000)
Net Pension & OPEB Liability	<u>(3,218,094)</u>

Total Net Position-Governmental Activities	<u>\$ 668,511</u>
--	-------------------

See the accompanying notes to the basic financial statements.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Major Funds</u>					
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Bond Sinking Funds</u>	<u>Special Reserve Funds</u>	<u>Other Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
<b>Revenues:</b>						
Property taxes	\$ 978,649	\$ 120,085	\$ 222,775	\$ 31,881	\$ 0	\$ 1,353,390
Other local sources	55,796	3,248			38,630	97,674
State sources	2,076,879	0			776	2,077,655
Federal sources	61,696	0			71,131	132,827
<b>Total revenues</b>	<u>3,173,020</u>	<u>123,333</u>	<u>222,775</u>	<u>31,881</u>	<u>110,537</u>	<u>3,661,546</u>
<b>Expenditures:</b>						
Current						
Instruction:						
Regular	1,259,520	0				1,259,520
Special education	634,662	0				634,662
Vocational education	61,844	0				61,844
<b>Total instruction</b>	<u>1,956,026</u>	<u>0</u>	<u>0</u>		<u>0</u>	<u>1,956,026</u>
Support services:						
Pupil services	54,255	0				54,255
Instructional staff services	108,746	0				108,746
General administrative services	378,745	0				378,745
School administrative services	143,879	0				143,879
Business services	3,203	0				3,203
Operations & maintenance	296,296	0				296,296
Pupil transportation services	113,983	0				113,983
Extracurricular	127,130	0				127,130
Food services outlays	0				169,915	169,915
Other support services		54,757	8,039			62,796
Debt service						
Principal	33,482		163,693		0	197,175
Interest	1,428		58,040		0	59,468
Capital outlays						
Other capital outlays	120,998	12,620				133,618
<b>Total support services</b>	<u>1,382,145</u>	<u>67,377</u>	<u>229,772</u>	<u>0</u>	<u>169,915</u>	<u>1,849,209</u>
<b>Total expenditures</b>	<u>3,338,171</u>	<u>67,377</u>	<u>229,772</u>	<u>0</u>	<u>169,915</u>	<u>3,805,235</u>
Excess (deficiency) of revenues over (under) expenditures	(165,151)	55,956	(6,997)	31,881	(59,378)	(143,689)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Capital Assets	16,000					16,000
Transfer from other funds		47,117			66,290	113,407
Transfer to other funds	(13,407)			(100,000)	0	(113,407)
Total other financing sources (uses)	2,593	47,117	0	(100,000)	66,290	16,000
Net Change in Fund Balances	(162,558)	103,073	(6,997)	(68,119)	6,912	(127,689)
Fund balance						
Beginning of year	1,260,199	10,458	400,515	107,028	33	1,778,233
End of year	<u>\$1,097,641</u>	<u>\$ 113,531</u>	<u>\$ 393,518</u>	<u>\$ 38,909</u>	<u>\$ 6,945</u>	<u>\$ 1,650,544</u>

See the accompanying notes to the basic financial statements.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH  
 THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (127,689)

The change in net position reported for governmental activities in the statement of net activities is 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 and reported as depreciation expense.

Capital outlay	\$ 133,617	
Depreciation expense	<u>(207,414)</u>	
Excess (Deficiency) of capital outlay over Depreciation Expense		(73,797)

In the statement of activities, the loss or gain on sale or disposal of capital assets is recognized. The fund financial statements do not recognize losses on disposal of capital assets. (16,000)

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 property taxes receivable. 1,393

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 the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt.

Repayment of Bus Master Payable	33,482	
Repayment of Capital Lease	18,693	
Repayment of debt	<u>145,000</u>	197,175

The net pension & OPEB liability, and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Net change in Net Pension & OPEB Liability		(229,221)
Net change in Deferred Outflows of Resources related to Pensions and OPEB		49,433
Net change in Deferred Inflows of Resources related to Pensions and OPEB		<u>11,973</u>

**Net Change in Net Position of Governmental Activities** \$ (186,733)

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**STATEMENT OF ASSETS AND LIABILITIES FIDUCIARY FUNDS**  
AS OF JUNE 30, 2018

	Agency <u>Fund</u>
<b>ASSETS:</b>	
Cash	\$ 64,880
Investments	<u>91,040</u>
Total Assets	<u><u>\$155,920</u></u>
<b>LIABILITIES:</b>	
Due to Students	\$ 60,333
Due to Others	<u>95,587</u>
Total Liabilities	<u><u>\$155,920</u></u>

See the accompanying notes to the basic financial statements.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Drayton Public School District No. 19, Drayton, ND, (hereafter referred to as the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The School District's more significant accounting policies are described below.

**A. Reporting Entity**

The accompanying financial statements present the activities of the School District. The School District has considered all potential component units for which the School District is financially accountable and other organizations for which the nature and significance of their relationships with the School District such that exclusion would cause the School District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the School District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the School District.

Based on these criteria, there are no component units to be included with the Drayton Public School District No. 19 reporting entity.

**B. Basis of Presentation, Basis of Accounting**

**Government-wide Statements** - The government-wide statements consist of a statement of net position and a statement of activities. These statements display information about the School District of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non restricted transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues, including all taxes, interest and non-restricted grants and contributions, are presented as general revenues.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

**Fund Financial Statements** - The fund financial statements provide information about the School District's funds including its fiduciary funds. Separate statements for each fund category-governmental and fiduciary-are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School District reports the following major governmental funds:

**General Fund** - This fund should be used to account for and report all financial resources of the general government, except those required to be accounted for in another fund.

**Special Revenue Fund** - This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. In these statements, the Special Revenue Fund consists of the Special Reserve Fund.

**Capital Projects** - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. The capital projects fund is also called the building fund, which is a major fund.

**Debt Service Fund** - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years, also should be reported in debt service funds.

The School District reports the following fund type:

**FIDUCIARY FUNDS**

The reporting focus of fiduciary funds is on net position and changes in net position. The District's only fiduciary fund is an agency fund.

**Agency Fund** - The agency fund is custodial in nature as an agent on behalf of others and does not involve measurement of results of operations. The District's agency fund consists of the Student Activity Fund, which accounts for the financial transactions related to the student's activity programs and to other governmental units.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

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

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

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

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

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

**D. Cash**

Cash includes amounts in demand deposits, money market accounts, and highly liquid short-term investments with original maturities of three months or less.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

**E. Capital Assets**

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Land	Indefinite
Buildings and Improvements	25-50
Vehicles	7-8
Equipment/Furniture	10
Computers and Office Equipment	5

**F. Compensated Absences**

Drayton Public School District No. 19 offer sick leave, emergency leave, personal leave, maternity leave, professional leave, jury duty and sabbatical leave to some or all classes of employees in varying degrees. For certified staff sick leave can accumulate to 80 days. The school district does not pay out for unused leave at retirement. Reasonable estimation of the resulting liability cannot be met, and there is no accrual made for compensated absences. In any circumstances, the resulting liability is considered immaterial.

**G. Long-Term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations, are reported in the governmental activities statement of net position. Bond premiums, discounts and issuance costs, when applicable are recognized in the current period since the amounts are not material.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

**G. Long-Term Obligations (con't)**

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**H. Pensions**

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

**I. Other Post-Employment Benefits (OPEB)**

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

**J. Fund Balances**

**Fund Balance Spending Policy**

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

Minimum Fund Policy

The Drayton Public School District budget committee established a minimum of 20% general fund carryover balance target several years ago to help with financial stability. The minimum 20% fund balance carryover is a part of the budget recommendation adopted by the School District's Board of Directors each fiscal year. This level provides sufficient unassigned resources to avoid short-term cash flow borrowing for the district.

Restricted Fund Balances

Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by enabling legislation (primarily state law for tax levies) and by outside 3<sup>rd</sup> parties (State & Federal governments for various grants & reimbursements).

Unassigned Fund Balances

Unassigned fund balances are reported in the general fund.

**K. Net Position**

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt issued to finance/construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position are due to restricted tax levies and bond indenture requirements for our capital projects/debt service.

Unrestricted net position is primarily unrestricted amounts related to the general fund, and negative net position. Unrestricted net position is available to meet the district's ongoing obligations.

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

**L. Interfund Transactions**

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



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)**

**L. Interfund Transactions (con't)**

All other interfund transactions, except reimbursements, are reported as transfers. In the government-wide financial statements, interfund transactions have been eliminated.

**NOTE 2: DEPOSITS AND INVESTMENTS**

In accordance with North Dakota Statutes, the Drayton Public School District No. 19 maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, 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 board, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

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

	Balance per Bank <u>Records</u>	In Transit <u>Items</u>	Balance per District <u>Records</u>
CHECKING ACCOUNTS			
KodaBank Drayton, ND			
Public Fund	\$1,909,895	\$(239,488)	\$1,670,407
Activity Fund	66,947	(6,614)	60,333
Private Purpose Account	4,547	0	4,547
Petty Cash	50	0	50
Total checking accounts	<u>\$1,981,439</u>	<u>\$(246,102)</u>	<u>\$1,735,337</u>

**NOTE 2: DEPOSITS AND INVESTMENTS (CON'T)**

CERTIFICATES OF DEPOSIT AND SAVINGS ACCOUNTS	Rate	Amount
KodaBank Drayton, ND		
Certificate of Deposit	2.0%	\$ 91,040
Total Certificates of deposit and savings accounts		91,040
Total Cash		<u>\$1,826,377</u>
Cash consists of:		
General Fund		\$1,117,384
Capital Projects Fund		113,531
Bond Sinking Fund		393,518
Special Reserve Fund		38,909
Hot Lunch Fund		7,115
Activity Fund		155,920
Total		<u>\$1,826,377</u>

**Pledge of Securities by Depository** - The amount of money on deposit at KodaBank, Drayton, ND on June 30, 2018 was \$1,981,439. On June 30, 2018 the amount of securities KodaBank, Drayton, ND had pledged as collateral along with insurance coverage for the deposits was \$3,143,860.

**Credit Risk** - Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. State statutes authorize the District to invest in (a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress; (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above; (c) Certificates of deposit fully insured by the federal deposit insurance corporation; (d) Obligations of the state.

**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 date of purchase.

**Concentration of Credit Risk** - The School District does not have a limit on the amount it may invest in any one issuer.

**NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:



**NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS (CON'T)**

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

**NOTE 4: PROPERTY TAXES AND TAXES RECEIVABLE**

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

<b>Property Tax Receivable</b>	<b><u>June 30, 2018</u></b>
General Fund	\$ 41,229
Building Fund	5,141
Bond Sinking Fund	9,594
Reserve	<u>1,365</u>
<b>Total Property Tax Receivable</b>	<b><u>\$ 57,329</u></b>

The school 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 November 14, 2017.

**NOTE 5: INTERGOVERNMENTAL RECEIVABLE**

<b>Intergovernmental Receivable</b>	<b><u>June 30, 2018</u></b>
General Fund	
Title Fund	\$ <u>0</u>
<b>Total Due From Other Governments</b>	<b><u>\$ 0</u></b>

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
Page 10

**NOTE 6: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Land	\$ 24,550	\$ 0	\$ 0	\$ 24,550
Buildings & Improvements	5,296,443	0	0	5,296,443
Machinery & Equipment	636,730	75,617	0	712,347
Vehicles	454,405	58,000	26,467	485,938
Total	<u>\$6,412,128</u>	<u>\$ 133,617</u>	<u>\$ 26,467</u>	<u>\$6,519,278</u>
Less Accumulated Depreciation				
Buildings & Improvements	1,372,802	97,101	0	1,469,903
Machinery & Equipment	453,257	57,157		510,414
Vehicles	222,708	53,156	10,467	265,397
Total	<u>2,048,767</u>	<u>207,414</u>	<u>10,467</u>	<u>2,245,714</u>
Net Capital Assets for				
Governmental Activities	<u>\$4,363,361</u>	<u>\$ (73,797)</u>	<u>\$ 16,000</u>	<u>\$4,273,564</u>

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

	June 30, 2018
Regular Instruction	\$ 50,222
Operation & maintenance of plant	97,101
Pupil transportation	53,156
Extra Curricular	6,935
Total	<u>\$207,414</u>

**NOTE 7: PAYABLES**

Benefits payable and salaries payable consists of accruals for health insurance, payroll and benefits for services received prior to June 30, 2018. The balance of Health Insurance payable was \$9,512. The balance of salaries and benefits payable was \$10,401.



**NOTE 8: STATEMENT OF LEASES**

The District entered into an operating lease for three copies and printers on August 2, 2016. The lease payment expended during the school year was \$14,040. Lease maturities are as follows:

<u>June 30</u>	<u>Copies and Printers</u>
2019	\$14,040
2020	14,040
2021	14,040
2022	2,340
<u>Total</u>	<u>\$44,460</u>

**NOTE 9: LONG TERM DEBT OBLIGATIONS ACTIVITY**

The following is a summary of debt transactions of the District for the year ended June 30, 2018.

Changes in Long-Term Liabilities

	<u>Net Pension Liability</u>	<u>Bonds of 2013</u>	<u>Bus Master Payable</u>	<u>Honeywell Capital Leases</u>	<u>Total Debt</u>
Balance, July 1, 2017	\$2,976,195	\$2,655,000	\$ 33,482	\$335,792	\$6,000,469
Debt retired	0	145,000	33,482	18,692	197,174
Debt issued	241,899				241,899
Balance, June 30, 2018	<u>3,218,094</u>	<u>2,510,000</u>	<u>0</u>	<u>317,100</u>	<u>6,045,194</u>
Due within one year	\$ 0	\$ 145,000	\$ 0	\$ 20,647	\$ 165,647

General Obligation School Building Bonds, Series 2013

\$3,150,000 General Obligation Bonds are due in varying semi-annual installments of \$70,000 to \$195,000 principal through August 1, 2032. Interest is varying from .4% to 2.2%.

\$2,510,000

Capital Leases

Drayton Public School entered into a Capital Lease on October 10, 2012. For the energy service agreement. The interest rate is 3.99%.

317,000

Drayton Public School District entered into a Master Capital Lease on October 30, 2015 for a 2016 school bus. The interest rate is 3.10%

0

Total Capital Leases

\$2,827,000

**NOTE 9: LONG TERM DEBT OBLIGATIONS ACTIVITY (CON'T)**

Debt maturities for the bonds are as follows:

Fiscal Year Ending June 30	Bonds Payable of 2013		Honeywell Capital Leases	
	Interest	Principal	Interest	Principal
2019	\$ 43,538	\$ 145,000	\$ 12,688	\$ 20,647
2020	42,210	150,000	11,843	22,724
2021	40,635	150,000	10,935	24,932
2022	38,835	150,000	9,939	27,276
2023	36,772	155,000	8,850	29,765
2024-2028	142,895	830,000	24,205	191,756
2029-2033	52,030	930,000		
Total	<u>\$396,915</u>	<u>\$2,510,000</u>	<u>\$ 78,460</u>	<u>\$317,100</u>

**NOTE 10: RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The School District pays an annual premium to NDRF for its general liability, auto, and inland marine coverage. The coverage by NDRF is limited to losses of 1,000,000 per occurrence.

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

The District participates in the North Dakota Workforce Safety 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.



**NOTE 11: NDTFFR**

**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**

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

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

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

**Pension Benefits**

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



**NOTE 11: NDTFFR (CON'T)**

*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 credits 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 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 11: NDTFFR (CON'T)**

*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.



## NOTES TO BASIC FINANCIAL STATEMENTS

Page 16

## NOTE 11: NDTFFR (CON'T)

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 70  $\frac{1}{2}$ . Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, the Employer reported a liability of \$2,805,879 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 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 July 1, 2017, the Employer's proportion was .20428277 percent, which was an increase of .01369377 from its proportion measured as of July 1, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of \$301,634. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	June 30, 2018	June 30, 2018
Differences between expected and actual experience	\$ 10,763	\$ 30,630
Changes of assumptions	199,992	
Net difference between projected and actual earnings on pension plan investments	38,757	
Changes in proportion and differences between employer contributions and proportionate share of contributions	249,205	87,017
Employer contributions subsequent to the measurement date	<u>172,702</u>	
Total	<u>\$671,419</u>	<u>\$117,647</u>



**NOTE 11: NDTFFR (CON'T)**

\$172,702 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 June 30, 2019.

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	\$ 79,965
2020	140,757
2021	102,695
2022	35,923
2023	963
Thereafter	20,747

**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 14.5%, 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 disable 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%.

**NOTE 11: NDTFFR (CON'T)**

- 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class Real	Target Allocation	Long-Term Expected
		Rate of Return
Global Equities	58%	6.7%
Global Fixed Income	23%	0.8%
Global Real Assets	18%	5.2%
Cash Equivalents	1%	0.0%

**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.



**NOTE 11: NDTFFR (CON'T)**

**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:

	<b>Current Discount</b>		
	<b>1% Decrease (6.75%)</b>	<b>Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Employer's proportionate share of the net pension liability	\$3,730,462	\$2,805,876	\$2,036,186

**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).

**NOTE 12: NDPERS**

**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 North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (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**

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

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



**NOTE 12: NDPERS (CON'T)**

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

**Pension Benefits**

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

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

**Death and Disability Benefits**

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

**NOTE 12: NDPERS (CON'T)**

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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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



**NOTE 12: NDPERS (CON'T)**

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

At June 30, 2018, the Employer reported a liability of \$393,924 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was .024508 percent, which was an increase of .005634 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of \$54,908. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources June 30, 2018</u>	<u>Deferred Inflows of Resources June 30, 2018</u>
Differences between expected and actual experience	\$ 2,341	\$ 1,919
Changes of assumptions	161,525	8,886
Net difference between projected and actual earnings on pension plan investments	5,298	
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,317	38,995
Employer contributions subsequent to the measurement date	<u>17,814</u>	
Total	<u>\$224,295</u>	<u>\$ 49,800</u>

\$17,814 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 June 30, 2018.



**NOTE 12: NDPERS (CON'T)**

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	\$29,621
2020	36,891
2021	31,646
2022	38,091
2023	20,432
Thereafter	0

**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	3.5%
Salary increases	5.0% to 15.0% varying by service including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost Scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no set back for females) - multiplied by 125%.

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:

**NOTE 12: NDPERS (CON'T)**

Asset Class	Target Allocation	Long-Term Expected
Real		Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.2%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.0%

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate of 6.44%.

**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 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:



**NOTE 12: NDPERS (CON'T)**

	1% Decrease 5.44%	Current Discount Rate 6.44%	1% Increase 7.44%
Employer's proportionate share of the net pension liability	\$534,764	\$393,924	\$276,751

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

**NOTE 13: OPEB PLAN**

**Summary of Significant Accounting Policies**

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

**General Information about the OPEB Plan**

**North Dakota Public Employees Retirement System**

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

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



**NOTE 13: OPEB PLAN (CON'T)**

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

**OPEB Benefits**

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

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

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

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

## NOTES TO BASIC FINANCIAL STATEMENTS

Page 27

## NOTE 13: OPEB PLAN (CON'T)

At June 30, 2018, the Employer reported a liability of \$18,294 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Employer's proportion was .023127 percent.

For the year ended June 30, 2018, the Employer recognized OPEB expense of \$3,043. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources June 30, 2018	Deferred Inflows of Resources June 30, 2018
Differences between expected and actual experience	\$ 0	\$ 446
Changes of assumptions	1,772	
Net difference between projected and actual earnings on OPEB plan investments		692
Changes in proportion and differences between employer contributions and proportionate share of contributions		9
Employer contributions subsequent to the measurement date (see below)	3,376	
Total	<u>\$ 5,148</u>	<u>\$1,147</u>

\$3,376 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ended June 30, 2019.



**NOTE 13: OPEB PLAN (CON'T)**

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

**Year ended June 30:**

2019	\$ 34
2020	34
2021	34
2022	34
2023	207
Thereafter	282

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

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%



**NOTE 13: OPEB PLAN (CON'T)**

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the net OPEB liability of the Plans as June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Current Discount		
	1% Decrease (6.5%)	Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$22,901	\$18,294	\$14,344

**NOTE 14: TRANSFERS**

The general fund transferred \$13,407 for the year ending June 30, 2018, to the school lunch fund. The transfer from the general fund to the school lunch fund was made to cover indirect cost for the current year that relate to school lunch activities. These activities include cook's payroll and related expense. There is nothing due to or due from any of the funds. The Special Reserve Fund transferred \$100,000 (\$47,117 to the Building Fund and \$52,883 to the school lunch fund).

**NOTE 15: TAX ABATEMENTS**

The School District has no tax abatements for the years ended June 30, 2018.

**NOTE 16: PRIOR PERIOD ADJUSTMENTS**

Change in Accounting Principle - GASB 75 - OPEB

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

<b>Governmental Activities</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 870,709
<b>Adjustments to restate the July 1, 2017 Net Position:</b>	
Net OPEB Liability	(15,465)
Net Position July 1, 2017, as restated	<u>\$ 855,244</u>

**NOTE 17: GASB 75 ADJUSTMENT**

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required a prior period adjustment to net OPEB liability and related deferred outflows as of July 1, 2017. The adjustments resulted in a decrease of \$15,465 in net position on the Statement of Activities.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**Schedules of Required Supplementary Information**  
**Schedule of Employer's Share of Net Pension Liability**  
**North Dakota Teachers Fund for Retirement**  
Last 10 Fiscal Years

<u>ND TFFR - Pension</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	.204283%	.1905895%	.201027%	.185034%
School District's proportionate share of the net pension liability (asset)	\$2,805,876	\$2,792,249	\$2,629,142	\$1,938,828
School District's covered-employee payroll	\$1,378,850	\$1,238,308	\$1,236,526	\$1,073,296
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	63.20%	59.20%	62.10%	66.60%

**Schedule of Employer Contributions**  
**North Dakota Teachers Fund for Retirement**  
Last 10 Fiscal Years

<u>ND TFFR - Pension</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 175,803	\$ 157,884	\$ 157,650	\$ 115,378
Contributions in relation to the statutorily required contribution	\$ 175,803	\$ 157,884	\$ 157,650	\$ 115,378
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0
School District's covered-employee payroll	\$1,378,850	\$1,238,308	\$1,236,526	\$1,073,296
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	10.75%

**Notes to Required Supplementary Information**  
**for the Year Ended June 30, 2017**

**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.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
Schedules of Required Supplementary Information  
Schedule of Employer's Share of Net Pension Liability  
North Dakota Public Employees Retirement System  
Last 10 Fiscal Years

<u>ND PERS - Pension</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	.024508%	.018874%	.018606%	.029423%
School District's proportionate share of the net pension liability (asset)	\$393,924	\$183,946	\$126,518	\$186,754
School District's covered-employee payroll	\$250,192	\$190,202	\$165,753	\$247,853
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%	96.710%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	73.30%	72.12%

Schedule of Employer Contributions  
North Dakota Public Employees Retirement System  
Last 10 Fiscal Years

<u>ND PERS - Pension</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 18,142	\$ 13,771	\$ 12,591	\$ 17,647
Contributions in relation to the statutorily required contribution	\$ 18,097	\$ 13,074	\$ 14,167	\$ 17,647
Contribution deficiency (excess)	\$ 45	\$ 697	\$ (1,576)	\$ 0
School District's covered-employee payroll	\$250,192	\$190,202	\$165,753	\$247,853
Contributions as a percentage of covered-employee payroll	7.23%	6.87%	7.60%	7.12%

Notes to Required Supplementary Information  
for the Year Ended June 30, 2017

**Changes of assumptions.**

Amounts reported in 2017 reflect actuarial assumption changes effective July 1 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**Schedules of Required Supplementary Information**  
**Schedule of Employer's Share of Net OPEB Liability**  
**North Dakota Public Employees Retirement System**  
 Last 10 Fiscal Years

<u>ND PERS - OPEB</u>	<u>2018</u>
School District's proportion of the net OPEB liability (asset)	.023127%
School District's proportionate share of the net OPEB liability (asset)	\$ 18,294
School District's covered-employee payroll	\$250,192
School District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

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

<u>ND PERS - OPEB</u>	<u>2018</u>
Statutory required contribution	\$ 2,908
Contributions in relation to the statutory required contribution	\$ 2,898
Contribution deficiency (excess)	\$ 10
School District's covered-employee payroll	\$250,192
Contributions as a percentage of covered-employee payroll	1.16%

The notes to the required supplementary information are an integral part of this statement.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
**Notes to the Required Supplementary Information**  
For the Year Ended June 30, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**Budgetary Information**

The School District adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

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

- The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.
- The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the business manager at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

The final budget was approved November 14, 2017.

NOTE 2: SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the School District will present information for those years for which information is available.

NOTE 3: CHANGES OF ASSUMPTIONS - PENSION AND OPEB

Amounts reported reflect actuarial assumption changes effective July 1, 2017, based on the results of an actuarial experience study completed in 2017. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	General Fund Actual	Variance with Final Budget
<b>Revenues:</b>				
Property taxes	\$ 964,630	\$ 964,630	\$ 978,649	\$ 14,019
Other local sources	29,980	29,980	55,796	25,816
State sources	2,246,752	2,246,752	2,076,879	(169,873)
Federal sources	116,538	116,538	61,696	(54,842)
<b>Total revenues</b>	<u>3,357,900</u>	<u>3,357,900</u>	<u>3,173,020</u>	<u>(184,880)</u>
<b>Expenditures:</b>				
Current				
Instruction:				
Regular	1,461,861	1,461,861	1,259,520	202,341
Special education	650,151	650,151	634,662	15,489
Vocational education	25,460	25,460	61,844	(36,384)
<b>Total instruction</b>	<u>2,137,472</u>	<u>2,137,472</u>	<u>1,956,026</u>	<u>181,446</u>
Support services:				
Pupil services	58,031	58,031	54,255	3,776
Instructional staff services	47,828	47,828	108,746	(60,918)
General administrative services	412,805	412,805	378,745	34,060
School administrative services	135,057	135,057	143,879	(8,822)
Business services	600	600	3,203	(2,603)
Operations & maintenance	267,154	267,154	296,296	(29,142)
Pupil transportation services	105,838	105,838	113,983	(8,145)
Extracurricular	134,849	134,849	127,130	7,719
Debt Service				
Principal	33,482	33,482	33,482	0
Interest	1,428	1,428	1,428	0
Capital outlays	120,998	120,998	120,998	0
<b>Total support services</b>	<u>1,318,070</u>	<u>1,318,070</u>	<u>1,382,145</u>	<u>(64,075)</u>
<b>Total expenditures</b>	<u>3,455,542</u>	<u>3,455,542</u>	<u>3,338,171</u>	<u>117,371</u>
Excess (deficiency) of revenues over (under) expenditures	(97,642)	(97,642)	(165,151)	(67,509)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets		0	16,000	16,000
Transfer from other funds	0		0	0
Transfer to other funds	(61,232)	(61,232)	(13,407)	47,825
<b>Total other financing sources (uses)</b>	<u>(61,232)</u>	<u>(61,232)</u>	<u>2,593</u>	<u>63,825</u>
Net Change in Fund Balances	(158,874)	(158,874)	(162,558)	(3,684)
Fund balance				
Beginning of year	1,260,199	1,260,199	1,260,199	0
End of year	<u>\$1,101,325</u>	<u>\$1,101,325</u>	<u>\$1,097,641</u>	<u>(3,684)</u>

See the accompanying notes to the basic financial statements.



V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

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

To the School Board of Directors  
Drayton Public School District No. 19  
Drayton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Drayton Public School District No. 19, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Drayton Public School District No. 19's basic financial statements and have issued our report thereon dated January 30, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Drayton Public School District No. 19'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 the Drayton Public School District No. 19's internal control. Accordingly, we do not express an opinion on the effectiveness of the Drayton Public School District No. 19'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. We consider the deficiencies described below to be material weaknesses.



Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

2018-001 - LACK OF SEGREGATION OF DUTIES

Condition - Drayton Public School District No. 19 has one business manager for most accounting functions.

Criteria - There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the District.

Effect - There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risks of misstatement of the District's financial condition.

Cause - Due to the size, complexity, organizational structure, and the economic realities Drayton Public School District No. 19 faces, it is presently not economically feasible to have more people with controls.

Recommendation - Due to the size of the District, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Views of responsible officials - Agree. The District has employed a second individual who will assume portions of the financial operations, thereby providing a measure of separation with the fiscal controls. Superintendent codes all general fund, building fund, and food service fund bills prior to payment, except payroll associated bills.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

2018-002 - CONTROLS OVER THE FINANCIAL REPORTING PROCESS

Condition - The business manager has full controls over the computer's financial reporting process.



Criteria - For effective internal controls over financial reporting you should split up the controls.

Effect - She has full controls to initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Cause - Due to the size, complexity, organizational structure, and the economic realities Drayton Public School District No. 19 faces, it is presently not economically feasible to have more people with controls.

Recommendation - The business manager having full controls over the computer's financial reporting process is common in an entity this size. The Management and the Board need to continually monitor the financial reporting process, especially since there is only one business manager.

Views of responsible officials - Due to the size of the District, it is not feasible to split up the controls. The Board will continue to monitor this condition. The superintendent will also continue to monitor the status of funds in the District, providing regular monthly updates to the Board. The Business Manager and Building Secretary will rectify the other program statements in November and May of each year. The superintendent maintains a monthly check on revenues and expenses, providing regular monthly updates to the Board which include ending balance projections.

#### 2018-003 - PREPARING FINANCIAL STATEMENTS - DESIGN DEFICIENCY

Condition - Management has not identified an internal control over the preparation of reliable financial statements, including the accompanying note disclosures, for external reporting.

Criteria - The framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statements and then should determine how those identified risks and internal control should be managed.

Effect - Failure to design effective controls over the preparation of the financial statements would not prevent or detect material misstatements, including footnote disclosure.

Cause - This deficiency is due to limited resources coupled with the fact the Drayton Public School District No. 19 may not know how to prepare financial statements that comply with GAAP.

Recommendation - The Board and management should document their identification of risks to the preparation of financial statements.

Views of responsible officials - Agree. Due to the size of the District, the design of the preparation of financial statements is not changing. The board will continue to work towards identifying the risks.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Drayton Public School District No. 19's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with 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*.

We noted certain matters that we reported to management of Drayton Public School District No. 19, in a separate letter dated January 30, 2020.

#### **Drayton Public School District No. 19's Response to Findings**

Drayton Public School District No. 19's response to the findings identified in our audit is described previously. Drayton Public School District No. 19'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.

V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.  
Oakes, North Dakota  
January 30, 2020





V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

January 30, 2020

To the School Board of Directors  
Drayton Public School District No. 19  
Drayton, North Dakota

#### MANAGEMENT LETTER

During completion of our audit of the Drayton Public School District No. 19 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 governmental 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 collect monies, issue receipts, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledgers and prepare 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 her work.

3. Data Storage. The school stores all its financial records on sight. The school should consider storing some financial records off sight, in case of a disaster.

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.

V. Nelson CPA, LTD.

Versella Nelson, CPA





V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

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

January 30, 2020

To the School Board of Directors  
Drayton Public School District No. 19  
Drayton, North Dakota

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Drayton Public School District No. 19, North Dakota, as of and for the year ended June 30, 2018, which collectively comprise the Drayton Public School District No. 19's basic financial statements and have issued our report thereon dated January 30, 2020. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of American and Government Auditing Standards**

As stated in our engagement letter dated July 18, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the Drayton Public School District No. 19, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Drayton Public School District No. 19, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Drayton Public School District No. 19 are described in Note 1 to the financial statements. The school district implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than pensions for the year ending June 30, 2018. We noted no transactions entered into by Drayton Public School District No. 19 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.

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 representations from management that are included in the management representation letter dated January 30, 2020.



### *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 Drayton Public School District No. 19'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.

### *Difficulties Encountered in Performing the Audit*

The audit was delayed because Drayton Public School District No. 19 was late in providing audit information to us, including the financials.

### *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 Drayton Public School District No. 19'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 Matters*

We applied certain limited procedures to budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

### *Restriction on Use*

This information is intended solely for the use of Members of the Board of Education and management of Drayton Public School District No. 19 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,

*V. Nelson CPA, Ltd.*

V. Nelson CPA, Ltd.  
Oakes, North Dakota



V. NELSON CPA, LTD.

