

**AUDIT REPORT**

**DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA**

**EXAMINATION FOR THE YEAR ENDED  
JUNE 30, 2020**

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

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*Certified Public Accountants*

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

School Board  
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 and each major fund of Drayton Public School District No. 19, Drayton, North Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Drayton Public School District No. 19, Drayton, North Dakota's basic financial statements and have issued our report thereon dated December 12, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Drayton Public School District No. 19, Drayton, North Dakota'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 Drayton Public School District No. 19, Drayton, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of Drayton Public School District No. 19, Drayton, North Dakota's internal control.

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, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 in the accompanying schedule of findings and responses, items 20-1 and 20-2, to be a material weaknesses.

## Compliance and Other Matters

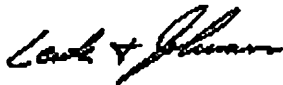
As part of obtaining reasonable assurance about whether Drayton Public School District No. 19, Drayton, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Drayton Public School District No. 19, Drayton, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Drayton Public School District No. 19, Drayton, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an 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.



LERVIK & JOHNSON  
Certified Public Accountants  
Bottineau, North Dakota

December 12, 2020

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
Drayton, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2020

Our audit of Drayton Public School District No. 19, Drayton, North Dakota found the following material weaknesses:

**20-1    Segregation of Duties**

**Condition:** The Drayton Public School District No. 19, Drayton, North Dakota, has one person responsible 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 school.

**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 risk of misstatement of the school's financial condition.

**Recommendation:** To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

**Client Response:** Agree. Drayton Public School District No. 19 does not have adequate resources to obtain proper internal controls to properly segregate duties. We will segregate duties to the extent possible.

**20-2    Check Signatures**

**Condition:** In lieu of the school board president signing checks manually, the school district utilizes a signature plate. The business manager, whose signature is also required on checks, has access to this signature plate. Certain procedures have been put in place to minimize this circumvention of the dual signature control.

**Criteria:** A measure of internal control can be accomplished with the requirement of dual signatures on school district warrants.

**Effect:** This internal control is circumvented.

**Recommendation:** To mitigate the risk associated with dual signatures we recommend that the signature plate not be used and the school board appoint an alternate signator in the event the school board president is unavailable.

**Client Response:** We concur with this recommendation.



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**J**OHNSON  

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*Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

School Board  
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 and each major fund of Drayton Public School District No. 19, Drayton, North Dakota, as of and for the year ended June 30, 2020, 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 design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Drayton Public School District No. 19, Drayton, North Dakota, as of June 30, 2020, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

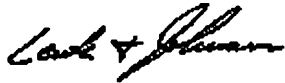
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and pension information on pages 35-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 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 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.



LERVIK & JOHNSON  
Certified Public Accountants  
Bottineau, North Dakota

December 12, 2020

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

STATEMENT OF NET POSITION  
JUNE 30, 2020

Primary Government  
Governmental Activities  
2020

ASSETS AND DEFERRED OUTFLOW OF RESOURCES:

|   |              |
|---|--------------|
| Cash and Cash Equivalents                       | \$ 1,796,082 |
| Taxes Receivable                                | 98,101       |
| Due from Other Governments                      | 121,860      |
| Capital Assets:                                 |              |
| Land, Improvements and Construction in Progress | 3,908,223    |
| Other Capital Assets, Net of Depreciation       | 768,479      |
| Deferred Outflow of Resources                   | -----        |

|  |                       |
|--|-----------------------|
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | \$ 6,692,745<br>===== |
|--|-----------------------|

LIABILITIES AND DEFERRED INFLOW OF RESOURCES

|                              |           |
|------------------------------|-----------|
| Employee Benefits Payable    | \$ 27,925 |
| Noncurrent Liabilities:      |           |
| Due in Less than One Year    | 150,000   |
| Due in More than One Year    | 2,065,000 |
| Net Pension Liability        | 3,178,927 |
| Deferred Inflow of Resources | 399,198   |
|                              | -----     |

|  |                    |
|--|--------------------|
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | 5,821,050<br>----- |
|--|--------------------|

NET POSITION:

|                                  |             |
|----------------------------------|-------------|
| Net Investment in Capital Assets | 1,693,223   |
| Restricted for:                  |             |
| Food Service                     | -0-         |
| Special Reserve                  | -0-         |
| Capital Outlay                   | 309,833     |
| Debt Service                     | 263,973     |
| Unrestricted (Deficit)           | (1,395,334) |
|                                  | -----       |

|                    |                  |
|--------------------|------------------|
| TOTAL NET POSITION | 871,695<br>----- |
|--------------------|------------------|

|  |                       |
|--|-----------------------|
| TOTAL LIABILITIES, DEFERRED INFLOW<br>OF RESOURCES, AND NET POSITION | \$ 6,692,745<br>===== |
|--|-----------------------|

The notes to the financial statements are an integral part of this statement.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

| FUNCTIONS/PROGRAMS       | EXPENSES           | PROGRAM REVENUES            |  |  | NET (EXPENSE)<br>REVENUE AND<br>CHANGES IN NET<br>POSITION<br>GOVERNMENTAL ACTIVITIES<br>2020 |
|--------------------------|--------------------|-----------------------------|--|--|---|
|                          |                    | CHARGES FOR<br>SERVICES     | OPERATING<br>GRANTS AND<br>CONTRIBUTIONS | CAPITAL<br>GRANTS AND<br>CONTRIBUTIONS |   |
| Primary Government:      |                    |                             |  |  |   |
| Governmental Activities: |                    |                             |  |  |   |
| Instruction              | \$ (2,488,982)     |                             | \$ 248,788                               |  | \$ (2,240,194)  |
| Support Services         | (1,151,753)        | \$ 32,734                   | 49,295                                   |  | (1,069,724)   |
| Co-curricular Activities | (115,202)          |                             |  |  | (115,202)   |
| Depreciation-unallocated | (146,495)          |                             |  |  | (146,495)   |
| Total Primary Government | <u>(3,902,432)</u> | <u>32,734</u>               | <u>298,083</u>                           | <u>-0-</u>                             | <u>(3,571,615)</u>  |
|                          |                    |                             |  |  |   |
|                          |                    | General Revenues:           |  |  |   |
|                          |                    | Property Taxes              |  |  | 1,335,864   |
|                          |                    | Revenue from State Sources: |  |  |   |
|                          |                    | State Foundation Aid        |  |  | 2,145,290   |
|                          |                    | Other General Revenues      |  |  | 32,546  |
|                          |                    | Total General Revenues      |  |  | <u>3,513,700</u>  |
|                          |                    | Change in Net Position      |  |  | (57,915)  |
|                          |                    | Net Position - Beginning    |  |  | 929,610   |
|                          |                    | NET POSITION - ENDING       |  |  | <u>\$ 871,695</u>   |

The notes to the financial statements are an integral part of this statement.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

|   | GENERAL<br>FUND     | FOOD<br>SERVICE<br>FUND | SPECIAL<br>RESERVE<br>FUND | BUILDING<br>FUND  | DEBT<br>SERVICE<br>FUND | TOTAL<br>GOVERNMENTAL FUNDS<br>2020 |
|---|---------------------|-------------------------|----------------------------|-------------------|-------------------------|-------------------------------------|
| <b><u>ASSETS:</u></b>   |                     |                         |                            |                   |                         |                                     |
| Cash and Cash Equivalents   | \$ 1,222,353        | \$ -0-                  | \$ (7)                     | \$ 309,809        | \$ 263,927              | \$ 1,796,082                        |
| Taxes Receivable  | 69,640              |                         | 2,438                      | 8,962             | 17,061                  | 98,101                              |
| Due From Other Governments  | 121,860             |                         |                            |                   |                         | 121,860                             |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,413,853</b> | <b>\$ -0-</b>           | <b>\$ 2,431</b>            | <b>\$ 318,771</b> | <b>\$ 280,988</b>       | <b>\$ 2,016,043</b>                 |
|   |                     |                         |                            |                   |                         |                                     |
| <b><u>LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES &amp; FUND BALANCES</u></b>  |                     |                         |                            |                   |                         |                                     |
| <b><u>Liabilities:</u></b>  |                     |                         |                            |                   |                         |                                     |
| Employee Benefits Payable   | \$ 27,925           |                         |                            |                   |                         | \$ 27,925                           |
| <b><u>Deferred Inflows of Resources:</u></b>                                      |                     |                         |                            |                   |                         |                                     |
| Uncollected Taxes   | 69,451              |                         | \$ 2,431                   | \$ 8,938          | 17,015                  | 97,835                              |
| <b>Total Liabilities and Deferred<br/>Inflows of Resources</b>                    | <b>97,376</b>       | <b>-0-</b>              | <b>2,431</b>               | <b>8,938</b>      | <b>17,015</b>           | <b>125,760</b>                      |
|   |                     |                         |                            |                   |                         |                                     |
| <b><u>Fund Balances:</u></b>  |                     |                         |                            |                   |                         |                                     |
| Fund Balances:  |                     |                         |                            |                   |                         |                                     |
| Restricted for Food Service   |                     | -0-                     |                            |                   |                         | -0-                                 |
| Restricted for Special Reserve  |                     |                         | -0-                        |                   |                         | -0-                                 |
| Restricted for Capital Projects   |                     |                         |                            | 309,833           |                         | 309,833                             |
| Restricted for Debt Service   |                     |                         |                            |                   | 263,973                 | 263,973                             |
| Unassigned  | 1,316,477           |                         |                            |                   |                         | 1,316,477                           |
| <b>Total Fund Balances</b>  | <b>1,316,477</b>    | <b>-0-</b>              | <b>-0-</b>                 | <b>309,833</b>    | <b>263,973</b>          | <b>1,890,283</b>                    |
|   |                     |                         |                            |                   |                         |                                     |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES<br/>AND FUND BALANCES</b> | <b>\$ 1,413,853</b> | <b>\$ -0-</b>           | <b>\$ 2,431</b>            | <b>\$ 318,771</b> | <b>\$ 280,988</b>       | <b>\$ 2,016,043</b>                 |

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

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020

2020

|  |                       |
|--|-----------------------|
| Total Fund Balances - Governmental Funds | \$ 1,890,283<br>----- |
|--|-----------------------|

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

|   |                    |
|---|--------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 3,908,223<br>----- |
|---|--------------------|

|  |                  |
|--|------------------|
| Assets such as Deferred Outflows are not available to pay for current period expenditures and therefore are deferred in the funds. | 768,479<br>----- |
|--|------------------|

|   |                    |
|---|--------------------|
| Liabilities such as Deferred Inflows are not due and payable in the current period and therefore are not reported in the funds. | (399,198)<br>----- |
|---|--------------------|

|   |                      |
|---|----------------------|
| Net pension liability for the Teachers Fund for Retirement are not due and payable in the current period and therefore are not reported in the funds. | (3,178,927)<br>----- |
|---|----------------------|

|   |                      |
|---|----------------------|
| Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds. | (2,215,000)<br>----- |
|---|----------------------|

|   |                 |
|---|-----------------|
| Assets such as taxes receivable and special assessment receivable are not available to pay for current period expenditures and therefore are deferred in the funds. | 97,835<br>----- |
|---|-----------------|

|                                   |                     |
|-----------------------------------|---------------------|
| Net Position - Governmental Funds | \$ 871,695<br>===== |
|-----------------------------------|---------------------|

The notes to the financial statements are an integral part of this statement.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

|   | GENERAL<br>FUND     | FOOD<br>SERVICE<br>FUND | SPECIAL<br>RESERVE<br>FUND | BUILDING<br>FUND  | DEBT<br>SERVICE<br>FUND | TOTAL FUNDS<br>2020 |
|---|---------------------|-------------------------|----------------------------|-------------------|-------------------------|---------------------|
| <b>REVENUES</b>                                   |                     |                         |                            |                   |                         |                     |
| Local Sources:                                    |                     |                         |                            |                   |                         |                     |
| Property Taxes                                    | \$ 948,413          |                         | \$ 32,755                  | \$ 120,473        | \$ 229,285              | \$ 1,330,926        |
| Charges for Services                              |                     | \$ 32,734               |                            |                   |                         | 32,734              |
| Other Revenue                                     | 32,546              |                         |                            |                   |                         | 32,546              |
| State Sources:                                    |                     |                         |                            |                   |                         |                     |
| Grants-In-Aid: Unrestricted                       | 2,145,290           |                         |                            |                   |                         | 2,145,290           |
| Grants-In-Aid: Restricted                         | 105,455             | 416                     |                            |                   |                         | 105,871             |
| Federal Sources:                                  |                     |                         |                            |                   |                         |                     |
| Grants-In-Aid: Restricted<br>Received Through DPI | 143,333             | 48,879                  |                            |                   |                         | 192,212             |
| <b>TOTAL REVENUES</b>                             | <b>3,375,037</b>    | <b>82,029</b>           | <b>32,755</b>              | <b>120,473</b>    | <b>229,285</b>          | <b>3,839,579</b>    |
| <b>EXPENDITURES</b>                               |                     |                         |                            |                   |                         |                     |
| Current:  |                     |                         |                            |                   |                         |                     |
| Regular Programs                                  | 1,579,580           |                         |                            |                   |                         | 1,579,580           |
| Federal Programs                                  | 125,257             |                         |                            |                   |                         | 125,257             |
| Instructional Media                               | 75,104              |                         |                            |                   |                         | 75,104              |
| School Board                                      | 90,722              |                         |                            |                   |                         | 90,722              |
| Executive Administration                          | 289,188             |                         |                            |                   |                         | 289,188             |
| Support Services - Business                       | 659                 |                         |                            |                   |                         | 659                 |
| Operation and maintenance of plant                | 262,821             |                         |                            | 51,875            |                         | 314,696             |
| Student Transportation                            | 146,515             |                         |                            |                   |                         | 146,515             |
| Extracurricular Activities                        | 115,202             |                         |                            |                   |                         | 115,202             |
| Early Childhood                                   | 49,037              |                         |                            |                   |                         | 49,037              |
| Food Services                                     |                     | 161,654                 |                            |                   |                         | 161,654             |
| Special Education                                 | 488,153             |                         |                            |                   |                         | 488,153             |
| Vocational Education                              | 25,821              |                         |                            |                   |                         | 25,821              |
| Debt Service:                                     |                     |                         |                            |                   |                         |                     |
| Principal   |                     |                         |                            |                   | 446,453                 | 446,453             |
| Interest  |                     |                         |                            |                   | 72,952                  | 72,952              |
| <b>TOTAL EXPENDITURES</b>                         | <b>3,248,059</b>    | <b>161,654</b>          | <b>-0-</b>                 | <b>51,875</b>     | <b>519,405</b>          | <b>3,980,993</b>    |
| Excess of Revenues Over<br>(Under) Expenditures   | 126,978             | (79,625)                | 32,755                     | 68,598            | (290,120)               | (141,414)           |
| <b>OTHER FINANCING SOURCES</b>                    |                     |                         |                            |                   |                         |                     |
| Transfers In                                      |                     | 65,894                  |                            |                   | 167,440                 | 233,334             |
| Transfers Out                                     | (65,894)            |                         | (167,440)                  |                   |                         | (233,334)           |
| Net Changes in Fund Balances                      | 61,084              | (13,731)                | (134,685)                  | 68,598            | (122,680)               | (141,414)           |
| Fund Balance - July 1                             | 1,255,393           | 13,731                  | 134,685                    | 241,235           | 386,653                 | 2,031,697           |
| <b>FUND BALANCE - JUNE 30</b>                     | <b>\$ 1,316,477</b> | <b>\$ -0-</b>           | <b>\$ -0-</b>              | <b>\$ 309,833</b> | <b>\$ 263,973</b>       | <b>\$ 1,890,283</b> |

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

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

2020

Net Change in Fund Balances - Total Governmental Funds \$ (141,414)

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

Governmental funds report capital outlays as expenditures  
However, in the statement of activities the cost of those  
assets is allocated over their estimated useful lives and  
reported as depreciation expense. This is the amount by  
which capital outlays exceeded depreciation in the current  
period. (172,825)

Government funds report deferred outflows as expenditures  
however, in the statement of activities these costs do not require  
the use or provide a source of financial resources. (38,741)

Government funds report deferred inflows as revenue  
however, in the statement of activities these inflows do not  
require the use or provide a source of financial resources. (140,876)

Reduction or Increase of the Net Pension Liability does not  
require the use or provide a source of financial resources. (15,450)

Governmental funds report debt retirement as expenditures  
however, in the statement of activities this cash outlay is  
not an expenditure but a reduction to a liability on the  
statement of net position. 446,453

Revenue from property taxes is deferred in the fund financial  
statements until they are considered available to finance  
current expenditures, but such revenues are recognized  
when levied in the government-wide financial statements. 4,938

Change in Net Position of Governmental Activities \$ (57,915)

The notes to the financial statements are an integral part of this statement.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2020

|                                 | <u>AGENCY FUNDS</u> |
|---------------------------------|---------------------|
|                                 | <u>2020</u>         |
| ASSETS:                         |                     |
| Cash                            | \$ 87,067           |
| Investments                     | 95,040              |
|                                 | -----               |
| TOTAL ASSETS                    | \$ 182,107          |
|                                 | =====               |
| <br>LIABILITIES:                |                     |
| Amounts Held For Student Groups | \$ 87,067           |
| Amounts Held For Scholarships   | 95,040              |
|                                 | -----               |
| TOTAL LIABILITIES               | \$ 182,107          |
|                                 | =====               |

The notes to the financial statements are an integral part of this statement.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school district have been prepared in conformity with generally accepted accounting principles (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 more significant of the government's accounting policies are described below:

A. Reporting Entity

The School Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the School District (the primary government) and its component units. A component unit would be included in the School District's reporting entity because of the significance of their operational or financial relationship with the School District. The criteria established by GSAB Statement No. 14 in determining financial accountability 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. The School District has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all the School District's nonfiduciary activities with most interfund activities removed. *Governmental Activities* include programs supported primarily by taxes, State foundation aid, grants, and other intergovernmental revenues. The School District has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information for governmental funds and fiduciary funds. Separate statements are presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The School District considers all governmental funds as major funds.

The funds of the financial reporting entity are described below:

## GOVERNMENTAL FUNDS:

General Fund - The general fund is the general operating fund of the school district. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital projects funds are used to account and report financial resources that are *restricted, committed, or assigned* to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are *restricted, committed, or assigned* to expenditure for principal and interest.

## FIDUCIARY FUNDS:

Agency Funds - Agency funds are used to account for assets held by the school district as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Following is a list of the major funds:

| <u>Fund</u>          | <u>Brief Description</u>   |
|----------------------|--|
| General Fund         | The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund. |
| Food Service Fund    | A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants.   |
| Building Fund        | A fund established to meet expenditures involving acquisition of plant and equipment and related costs. This fund is financed by property taxes.                                       |
| Special Reserve Fund | A fund established to hold reserve funds.  |
| Debt Service Fund    | A fund used to record financial transactions related to retirement of long term debt.  |

## C. Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current

assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable. The school district considers property tax as available when they are collected. Property taxes collected within 60 days after year end are not material.

Revenues from local sources consist primarily of property taxes. Revenues received from the Department of Public Instruction are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

#### D. Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments 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 or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the school's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The district's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

#### E. Capital Assets

Capital Assets include land, buildings, equipment, vehicles, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment for capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

#### *Government-Wide Statements*

All capital assets are valued at actual or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during the construction of Governmental Activities capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows.

|                          | Capitalization<br><u>Threshold</u> | Depreciation<br><u>Method</u> | Estimated<br><u>Useful Life</u> |
|--------------------------|------------------------------------|-------------------------------|---------------------------------|
| Land                     | \$ 5,000                           | Straight-Line                 | -----                           |
| Buildings & Improvements | 5,000                              | Straight-Line                 | 50 years                        |
| Equipment                | 5,000                              | Straight-Line                 | 10 years                        |
| Vehicles                 | 5,000                              | Straight-Line                 | 10 years                        |

Land is an inexhaustible capital asset and is not depreciated.

#### *Fund Financial Statements*

In the fund financial statements, capital assets used in the governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

#### F. Long-Term Liabilities

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures.

#### G. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, a liability is not recorded for nonvesting accumulating rights to receive sick pay benefits.

#### H. Fund Equity

*Nonspendable fund balances* will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact.

*Restricted fund balances* will exist when constraints are placed on those resources that are either externally imposed or imposed by law.

*Committed fund balances* are amounts that can only be used for specific purposes pursuant to constraints imposed by the school board.

*Assigned fund balances* will be amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted, nor committed.

*Unassigned fund balances* will represent those funds that have not been assigned, committed, restricted, or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance except for a deficit fund balance in other funds.

**I. Order of Fund Balance Spending Policy**

The school district's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First nonspendable amounts are determined. Then restricted balances for specific purposes are determined. Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balances if the fund is in a deficit situation.

**J. Prior Year Comparative Total Columns**

Prior year total columns are financial data provided for analysis and comparative purposes only .

**NOTE 2: DEPOSITS**

At June 30, 2020 the School District had deposits of \$1,978,188.67. District deposits at balance sheet date were covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the entity or its agent in the entity's name (Category II assets). North Dakota statutes require the market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance. District deposits were adequately protected.

**NOTE 3: TAXES RECEIVABLE**

Taxes receivable consist of current taxes and delinquent uncollected taxes for the past three years as of June 30. No allowance has been established for uncollectible taxes receivable.

Property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 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.

Property taxes are limited by state laws. All school tax levies are in compliance with state laws.

**NOTE 4: CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

| Capital Assets:          | <u>7-01-19</u> | <u>Additions</u> | <u>Retirements</u> | <u>06-30-20</u> |
|--------------------------|----------------|------------------|--------------------|-----------------|
| Land                     | \$ 24,550      |                  |                    | \$ 24,550       |
| Buildings & Improvements | 5,296,443      |                  |                    | 5,296,443       |
| Equipment                | 724,088        |                  |                    | 724,088         |
| Vehicles                 | 485,938        | \$ 22,900        |                    | 508,838         |
|                          | -----          | -----            | -----              | -----           |
| Totals                   | 6,531,019      | 22,900           | -0-                | 6,553,919       |
|                          | -----          | -----            | -----              | -----           |

|                                    |              |              |                     |
|------------------------------------|--------------|--------------|---------------------|
| Less Accumulated Depreciation for: |              |              |                     |
| Buildings & Improvements           | 1,566,668    | 96,428       | 1,663,096           |
| Equipment                          | 567,166      | 50,067       | 617,233             |
| Vehicles                           | 316,137      | 49,230       | 365,367             |
|                                    | -----        | -----        | -----               |
| Totals                             | 2,449,971    | 195,725      | -0- 2,645,696       |
|                                    | -----        | -----        | -----               |
| Government Activity                |              |              |                     |
| Net Capital Assets                 | \$ 4,081,048 | \$ (172,825) | \$ -0- \$ 3,908,223 |
|                                    | =====        | =====        | =====               |

Depreciation was charged to functions as follows:

|  |            |            |
|--|------------|------------|
| Governmental   |            |            |
| Activities:  | 2020       | 2019       |
| Support Services                                     | \$ 49,230  | \$ 50,740  |
| Depreciation - Unallocated                           | 146,495    | 153,517    |
|  | -----      | -----      |
| Total Depreciation Expense - Governmental Activities | \$ 195,725 | \$ 204,257 |
|  | =====      | =====      |

NOTE 5: GENERAL LONG-TERM DEBT

The following is a summary of debt transactions of the school district for the year ended June 30, 2020:

|                      | BONDS<br><u>PAYABLE</u> | CONTRACTS<br><u>PAYABLE</u> |
|----------------------|-------------------------|-----------------------------|
| Debt Payable July 1  | \$2,365,000             | \$ 296,453                  |
| Debt Issued          | -0-                     | -0-                         |
| Debt Retired         | 150,000                 | 296,453                     |
|                      | -----                   | -----                       |
| Debt Payable June 30 | \$2,215,000             | \$ -0-                      |
|                      | =====                   | =====                       |
| Due within one year  | \$ 150,000              | \$ -0-                      |
|                      | =====                   | =====                       |

Debt payable at June 30, 2020 is comprised of the following individual issues:

BONDS PAYABLE

\$3,150,000 General Obligation School Building Refunding Bonds, Series 2013 for school building improvements. The bonds call for annual principal payments of \$70,000 to \$195,000 from August 1, 2013 through August 1, 2032 and interest at .4% to 2.2%.

\$2,215,000  
=====

The annual requirements to amortize all debt outstanding as of June 30, 2020 are as follows:



| <u>Year Ending June 30.</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|--------------|
| 2021                        | 150,000          | 40,635          | 190,635      |
| 2022                        | 150,000          | 38,835          | 188,835      |
| 2023                        | 155,000          | 36,773          | 191,773      |
| 2024                        | 160,000          | 34,410          | 194,410      |
| 2025                        | 160,000          | 31,770          | 191,770      |
| 2026                        | 165,000          | 28,845          | 193,845      |
| 2027                        | 170,000          | 25,660          | 195,660      |
| 2028                        | 175,000          | 22,210          | 197,210      |
| 2029                        | 180,000          | 18,480          | 198,480      |
| 2030                        | 180,000          | 14,520          | 194,520      |
| 2031                        | 185,000          | 10,505          | 195,505      |
| 2032                        | 190,000          | 6,380           | 196,380      |
| 2033                        | 195,000          | 2,145           | 197,145      |
|                             | -----            | -----           | -----        |
| TOTAL                       | \$ 2,215,000     | \$ 311,168      | \$ 2,526,168 |
|                             | =====            | =====           | =====        |

The school district is in compliance with all bond covenants.

**NOTE 6: DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the balance sheet represent amounts reported for uncollected taxes receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes receivable are measurable but not available.

**NOTE 7: EMPLOYEE RETIREMENT SYSTEMS**

*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 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 North Dakota Teachers' Fund for Retirement**

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

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

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members.

The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has the 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 funded members on or after July 1, 2008.

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

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

*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.

*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% when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. 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, 2020, the Employer reported a liability of \$2,781,814 (from Exhibit E Column 2 in TFFR GASB Report) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 June 30, 2019 the Employer's proportion was .201983%, (from Exhibit E, Column 1 in TFFR GASB Report) which was an increase or (decrease) of .002732 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020 the Employer recognized pension expense of \$330,728 (from Exhibit E, Column 13 of TFFR GASB Report). At June 30, 2020 the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Exhibit E, Columns 14-22 of TFFR GASB Report with the exception of employer contributions subsequent to the measurement date):

|  | Deferred Outflows<br>Of Resources | Deferred Inflows<br>Of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected<br>and actual experience  | \$ 3,972                          | \$ 100,397                       |
| Changes of assumptions   | 98,870                            | -0-                              |
| Net difference between<br>projected and actual earnings<br>on pension plan investments                                 | 39,157                            | -0-                              |
| Changes in proportion and<br>differences between employer<br>contributions and proportionate<br>share of contributions | 178,853                           | 97,728                           |
| Employer contributions<br>subsequent to the<br>measurement date (see below)  | 181,431                           | -0-                              |
|  | -----                             | -----                            |
| Total  | \$ 502,283                        | \$ 198,125                       |
|  | =====                             | =====                            |

\$181,431 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, 2021 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Exhibit E, Columns 23-28 of TFFR GASB Report - years will need to be rolled forward one year from the dates in the report):

|                     |           |
|---------------------|-----------|
| Year ended June 30: |           |
| 2021                | \$ 94,805 |
| 2022                | 28,785    |
| 2023                | (6,059)   |
| 2024                | 25,798    |
| 2025                | (18,883)  |
| Thereafter          | (1,718)   |

#### Actuarial assumptions

The total pension liability in the July 1 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |   |
|----------------------------|---|
| Inflation                  | 2.75%   |
| Salary increases           | 4.25%-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 disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2019, funding actuarial valuation for TFFR.

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

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%
- Total salary scale 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 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:

| <u>Asset Class</u>  | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------|--------------------------|---|
| Global Equities     | 58%                      | 6.9%  |
| Global Fixed Income | 23%                      | 2.1%  |
| Global Real Assets  | 18%                      | 5.4%  |
| 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, 2019. 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, 2019, Actuarial Valuation Report. For this purpose, only member 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 June 30, 2019. 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, 2019.

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: (from Exhibit E, Columns 4-6 TFFR GASB Report)

|   | Current Discount   |              |                     |
|---|--------------------|--------------|---------------------|
|   | 1% Decrease(6.75%) | Rate (7.75%) | 1% Increase (8.75%) |
| Employer's proportionate share of the net pension liability | \$3,756,868        | \$2,781,814  | \$1,971,519         |

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).

*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 North Dakota Public Employees Retirement System (Main System)  
The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing 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.

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

#### Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

#### Death and Disability Benefits

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by 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 covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

- 1 to 12 months of service - Greater of one percent of monthly salary 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

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

At June 30, 2020 (employer's fiscal year end), the Employer reported a liability of \$373,270 (from Section E, Schedule of Net Pension Liability by Employer) for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, (date of NDPERS GASB Report) 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, 2019 (date of NDPERS GASB Report) the Employer's proportion was .031847 percent, (from Section E, Schedule of Net Pension Liability by Employer) which was as increase or (decrease) of .003023 from its proportion measured as of June 30, 2018.



For the year ended June 30, 2020 (employer's fiscal year-end) the Employer recognized pension expense of \$77,949 (from Section E, of Schedule of Pension Amounts by Employer). At June 30, 2020 (employer's fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

|  | Deferred Outflows<br>Of Resources | Deferred Inflows<br>Of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected<br>and actual experience  | \$ 221                            | \$ 67,741                        |
| Changes of assumptions   | 139,481                           | 119,757                          |
| Net difference between<br>projected and actual earnings<br>on pension plan investments                                 | 6,503                             | -0-                              |
| Changes in proportion and<br>differences between employer<br>contributions and proportionate<br>share of contributions | 76,657                            | 12,822                           |
| Employer contributions<br>subsequent to the<br>measurement date (see below)  | 30,856                            | -0-                              |
| Total  | <u>\$ 253,718</u>                 | <u>\$ 200,320</u>                |

\$30,856 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, 2021 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Section E, Schedule of Net Deferred Outflows and Inflows by Year By Employer). Years will need to be rolled forward one year from the dates in the report:

|                     |          |
|---------------------|----------|
| Year ended June 30: |          |
| 2020                | \$22,662 |
| 2021                | 27,207   |
| 2022                | 5,499    |
| 2023                | (24,026) |
| 2024                | (8,800)  |
| Thereafter          | -0-      |

#### Actuarial assumptions

The total pension liability in the July 1 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                  |                              |               |
|------------------|------------------------------|---------------|
| Inflation        | 2.50%                        |               |
| Salary increases | Service at Beginning of Year | Increase Rate |
|                  | 0                            | 15.00%        |
|                  | 1                            | 10.00%        |
|                  | 2                            | 8.00%         |

|  |        |
|--|--------|
| Age*   |        |
| Under 30   | 10.00% |
| 30 - 39  | 7.50%  |
| 40 - 49  | 6.75%  |
| 50-59  | 6.50%  |
| 60+  | 5.25%  |
| *Age-based salary increase rates apply for employees with three or more years of service |        |

|                            |                                   |
|----------------------------|-----------------------------------|
| 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 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 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:

| <u>Asset Class</u>         | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Domestic Equity            | 30%                      | 6.25%   |
| International Equity       | 21%                      | 6.95%   |
| Private Equity             | 7%                       | 10.15%  |
| Domestic Fixed Income      | 23%                      | 2.11%   |
| International Fixed Income | 0%                       | 0.00%   |
| Global Real Assets         | 19%                      | 5.41%   |
| Cash Equivalents           | 0%                       | 0.00%   |

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

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 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate: (from Section E, Net Pension Liability Discount Rate Sensitivity by Employer)

|   | 1% Decrease(6.50%) | Current Discount<br>Rate (7.50%) | 1% Increase (8.50%) |
|---|--------------------|----------------------------------|---------------------|
| Employer's<br>proportionate share of<br>the net pension liability | \$535,189          | \$373,270                        | \$237,230           |

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

*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 (NDPERS)

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advanced -funded on an actuarially determined basis.

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

### OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*refunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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 and Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020 (employer's fiscal year end), the Employer reported a liability of \$23,843 (from Section E, Schedule of Net OPEB Liability by Employer) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, (date of NDPERS GASB Report) 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 the covered payroll of all participating OPEB employers. At June 30, 2019, (date of NDPERS GASB Report) the Employer's proportion was .029686 percent, (from Section E, Schedule of Net OPEB Liability by Employer) which was an increase or (decrease) of .002624 (employer will select increase or decrease and calculate change - not applicable for first year of implementation) from its proportion measured as of June 30, 2018 (one year prior to date above).

For the year ended June 30, 2020 (employer's fiscal year-end) the Employer recognized OPEB expense of \$3,952 (from Section E, Schedule of Contributions by Employer). At June 30, 2020 (employer's fiscal year-end) the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (from Section E, Schedule of Net Deferred Outflows and Inflows by Year by Employer):

|  | Deferred Outflows<br>Of Resources | Deferred Inflows<br>Of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected<br>and actual experience  | \$ 589                            | \$ 745                           |
| Changes of assumptions   | 2,842                             | -0-                              |
| Net difference between<br>projected and actual earnings<br>on OPEB plan investments                                    | 27                                | -0-                              |
| Changes in proportion and<br>differences between employer<br>contributions and proportionate<br>share of contributions | 4,080                             | 8                                |
| Employer contributions<br>subsequent to the<br>measurement date (see below)  | 4,940                             | -0-                              |
|  | -----                             | -----                            |
| Total  | \$ 12,478                         | \$ 753                           |
|  | =====                             | =====                            |

\$4,940 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 year ended June 30, 2021 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB's will be recognized in OPEB expense as follows (from Section E, Schedule of Net Deferred Outflows and Inflows by Year By Employer). Years will need to be rolled forward one year from dates in report):

Year ended June 30:

|            |        |
|------------|--------|
| 2020       | \$ 716 |
| 2021       | 716    |
| 2022       | 716    |
| 2023       | 716    |
| 2024       | 716    |
| Thereafter | 492    |

#### Actuarial assumptions

The total OPEB liability in the July 1, 2019 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  | 7.25% 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 of July 1, 2019 are summarized in the following table:

| <u>Asset Class</u>          | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--------------------------|---|
| Large Cap Domestic Equities | 33%                      | 6.00%   |
| Small Cap Domestic Equities | 6%                       | 7.30%   |
| Domestic Fixed Income       | 40%                      | 2.07%   |
| International Equities      | 21%                      | 6.95%   |

Discount Rate. The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the 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 of June 30, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate: (from Section E, Net OPEB Liability Discount Rate Sensitivity by Employer)

|  | Current Discount   |              |                     |
|--|--------------------|--------------|---------------------|
|  | 1% Decrease(6.25%) | Rate (7.25%) | 1% Increase (8.25%) |
| Employer's proportionate share of the net OPEB liability | \$30,433           | \$23,843     | \$18,203            |

NOTE 8: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds established by the State for risk management issues:

The School District participates in the State Bonding Fund. The State Bonding Fund does not currently charge any premium for this coverage.

The School District participates in the North Dakota Fire and Tornado Fund (NDFT). The School District pays an annual premium to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The North Dakota Insurance Department (NDID) entered into an agreement effective June 28, 2019 which allows the North Dakota Insurance Reserve Fund (NDIRF) to take over many of the administrative operations of the NDFT, including underwriting, premium collection, loss control, and claims administration.

The School District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed for the payment of claims to employees injured in the course of employment. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

During the mid-1980's, the School District was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. All members paid an additional charge the first year they joined to help capitalize the NDIRF. In 1991, 1992, 1993, 1994, and 1995, the NDIRF returned 20% each year, for a total of 100%, of the capitalized amount with a premium reduction or cash payment to the School District. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence.

**NOTE 9: INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2020 were as follows:

| <u>Fund</u>     | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------|---------------------|----------------------|
| General         |                     | \$ 65,894            |
| Food Service    | \$ 65,894           |                      |
| Special Revenue |                     | \$ 167,440           |
| Building        | \$ 167,440          |                      |
|                 | -----               | -----                |
| Total           | \$ 233,334          | \$ 233,334           |
|                 | =====               | =====                |

Interfund transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is complete.

**NOTE 10: TAX ABATEMENTS**

The school district and political subdivisions within the county can negotiate property abatement agreements with individuals and various commercial entities/businesses. The school district and the political subdivisions within have the following types of tax abatement agreements with various individuals and commercial entities at June 30, 2020.

The county will state individually the parties who received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs.

**Public Charity Exemption**

Public charities are eligible for property tax incentives if they meet state requirements (NDCC 57-02-08 (8) ) and the guidelines stated below. The following criteria are only guidelines.



All buildings belonging to institutions of public charity, including public hospitals and nursing homes licensed pursuant to section 23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with land occupied by such institutions not leased or otherwise used with a view to profit. The exemption provided by this subsection includes any dormitory, dwelling, or residential-type structure, together with necessary land on which such structure is located, owned by a religious or charitable organization recognized as tax exempt under section 501(c)(3) of the United States Internal Revenue Code which is occupied by members of said organization who are subject to a religious vow of poverty and devote and donate substantially all of their time to the religious or charitable activities of the owner.

Exemption Criteria

Property is exempt if the qualified facility is used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit.

2020 Reduction in Taxes - Due to Agreements with Other Entities

The total program reduction in taxes is not a material amount.

DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

|  | ORIGINAL<br>BUDGET | FINAL<br>BUDGET   | BUDGET<br>BASIS<br>ACTUAL | VARIANCE WITH<br>FINAL BUDGET<br>FAVORABLE<br>(UNFAVORABLE) |
|--|--------------------|-------------------|---------------------------|---|
| <b>REVENUES</b>                              |                    |                   |                           |   |
| Local Sources                                | \$ 987,818         | \$ 987,818        | \$ 980,959                | \$ (6,859)  |
| State Sources                                | 2,209,868          | 2,211,368         | 2,250,745                 | 39,377  |
| Federal Sources                              | 150,256            | 150,256           | 143,333                   | (6,923)   |
| TOTAL REVENUES                               | <u>3,347,942</u>   | <u>3,349,442</u>  | <u>3,375,037</u>          | <u>25,595</u>   |
| <b>EXPENDITURES</b>                          |                    |                   |                           |   |
| Current:                                     |                    |                   |                           |   |
| Regular Programs                             | 1,551,847          | 1,576,159         | 1,579,580                 | (3,421)   |
| Federal Programs                             | 127,248            | 126,648           | 125,257                   | 1,391   |
| Instructional Media                          | 168,567            | 144,855           | 75,104                    | 69,751  |
| School Board                                 | 124,305            | 124,305           | 90,722                    | 33,583  |
| Executive Administration                     | 286,256            | 286,256           | 289,188                   | (2,932)   |
| Support Service - Business                   | 2,200              | 2,200             | 659                       | 1,541   |
| Operation and Maintenance of Plant           | 348,746            | 348,746           | 262,821                   | 85,925  |
| Student Transportation                       | 140,674            | 140,674           | 146,515                   | (5,841)   |
| Extracurricular Activities                   | 179,779            | 179,779           | 115,202                   | 64,577  |
| Early Childhood                              | 43,016             | 48,026            | 49,037                    | (1,011)   |
| Special Education                            | 559,284            | 559,284           | 488,153                   | 71,131  |
| Vocational Education                         | 27,665             | 27,665            | 25,821                    | 1,844   |
| TOTAL EXPENDITURES                           | <u>3,559,587</u>   | <u>3,564,597</u>  | <u>3,248,059</u>          | <u>316,538</u>  |
| Excess of Revenues Over (Under) Expenditures | <u>(211,645)</u>   | <u>(215,155)</u>  | <u>126,978</u>            | <u>342,133</u>  |
| Transfers In (Out)                           | (71,691)           | (71,691)          | (65,894)                  | 5,797   |
| Fund Balance - July 1                        | <u>1,255,393</u>   | <u>1,255,393</u>  | <u>1,255,393</u>          | <u>-0-</u>  |
| FUND BALANCE - JUNE 30                       | <u>\$ 972,057</u>  | <u>\$ 968,547</u> | <u>\$ 1,316,477</u>       | <u>\$ 347,930</u>   |

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

Drayton Public School District No. 19  
Drayton, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Teachers' Fund for Retirement  
Last 10 Fiscal Years\*  
June 30, 2020  
(from Exhibit E and Exhibit 2 of TFFR GASB Report)

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Employer's proportion of the net pension liability (asset).<br>Exhibit E, Column 1  | .201983     | .199251%    | .204283%    | .190589%    | .201027%    | .185034%    |
| 2. Employer's proportionate share of the net pension liability (asset).<br>Exhibit E, Column 2   | \$2,781,814 | \$2,655,728 | \$2,805,876 | \$2,792,249 | \$2,629,142 | \$1,938,828 |
| 3. Employer's covered-employee payroll.<br>Exhibit E, Column 3   | \$1,416,967 | \$1,354,524 | \$1,378,850 | \$1,238,308 | \$1,236,526 | \$1,073,296 |
| 4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll.<br>Calculate, 2 divided by 3 | 196.3%      | 196.06%     | 203.49%     | 225.49%     | 212.62%     | 180.64%     |
| 5. Plan fiduciary net position as a percentage of the total pension liability.<br>Exhibit 2  | 65.5%       | 65.5%       | 63.2%       | 59.2%       | 62.1%       | 66.6%       |

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Drayton Public School District No. 19  
Drayton, North Dakota

Schedule of Employer Contributions  
ND Teacher's Fund for Retirement  
Last 10 Fiscal Years\*  
June 30, 2019  
(from Exhibit E of TFFR GASB Report)

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Statutorily required contribution<br>Exhibit E, Column 7                                  | \$181,431   | \$180,663   | \$172,702   | \$175,803   | \$157,884   | \$157,650   | \$115,378   |
| 2. Contributions in relation to the statutorily required contribution<br>Exhibit E, Column 8 | \$(181,431) | \$(180,663) | \$(172,702) | \$(175,803) | \$(157,884) | \$(157,650) | \$(115,378) |
| 3. Contribution deficiency (excess)<br>Exhibit E, Column 9                                   | \$ -0-      | \$ -0-      | \$ -0-      | \$ -0-      | \$ -0-      | \$ -0-      | \$ -0-      |
| 4. Employer's covered-employee payroll<br>Exhibit E, Column 3                                | \$1,422,991 | \$1,416,967 | \$1,354,524 | \$1,378,850 | \$1,238,308 | \$1,236,526 | \$1,073,296 |
| 5. Contributions as a percentage of covered-employee payroll<br>Exhibit E, Column 10         | 12.75%      | 12.75%      | 12.75%      | 12.75%      | 12.75%      | 12.75%      | 10.75%      |

\*Complete data for this schedule is not available prior to 2014.

Drayton Public School District No. 19  
Drayton, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Public Employee Retirement System  
Last 10 Fiscal Years\*  
June 30, 2020  
(from Section E, Schedule of Net Pension Liability by Employer)

|   | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Employer's proportion of the net pension liability (asset).  | .031847%    | .028824%    | .024508%    | .018874%    | .018606%    | .029423%    |
| 2. Employer's proportionate share of the net pension liability (asset).   | \$373,270   | \$486,436   | \$393,924   | \$183,946   | \$126,518   | \$186,754   |
| 3. Employer's covered-employee payroll.   | \$331,258   | \$296,116   | \$250,192   | \$190,202   | \$165,753   | \$247,853   |
| 4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3 | 112.68%     | 164.27%     | 157.45%     | 96.71%      | 76.33%      | 75.35%      |
| 5. Plan fiduciary net position as a percentage of the total pension liability.  | 71.66%      | 62.80%      | 61.98%      | 70.46%      | 73.30%      | 72.12%      |

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Drayton Public School District No. 19  
Drayton, North Dakota

Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*  
June 30, 2020  
(from Section E, Schedule of Contributions by Employer)

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Statutorily required contribution.                                  | \$24,118    | \$21,810    | \$18,142    | \$13,771    | \$12,591    | \$17,647    |
| 2. Contributions in relation to the statutorily required contribution. | \$(25,858)  | \$(21,647)  | \$(18,097)  | \$(13,074)  | \$(14,167)  | \$(17,647)  |
| 3. Contribution deficiency (excess).                                   | \$(1,740)   | \$163       | \$45        | \$697       | \$(1,576)   | \$-0-       |
| 4. Employer's covered-employee payroll.                                | \$331,258   | \$296,116   | \$250,192   | \$190,202   | \$165,753   | \$247,853   |
| 5. Contributions as a percentage of covered-employee payroll.          | 7.81%       | 7.31%       | 7.23%       | 6.87%       | 7.60%       | 7.12%       |

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Drayton Public School District No. 19  
Drayton, North Dakota

Schedule of Employer's Share of Net OPEB Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*  
June 30, 2020  
(from Section E, Schedule of Net OPEB Liability by Employer)

|   | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| 1. Employer's proportion of the net OPEB liability (asset).   | .029686%    | .027062%    | .023127%    |
| 2. Employer's proportionate share of the net OPEB liability (asset).  | \$23,843    | \$21,313    | \$18,294    |
| 3. Employer's covered-employee payroll.   | \$331,258   | \$296,116   | \$250,192   |
| 4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3 | 7.20%       | 7.20%       | 7.31%       |
| 5. Plan fiduciary net position as a percentage of the total pension liability.<br>Section C   | 63.13%      | 61.89%      | 59.78%      |

\*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Drayton Public School District No. 19  
Drayton North Dakota

Schedule of Employer OPEB Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*  
June 30, 2020

(from Section E, Schedule of OPEB Contributions by Employer)

|  | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|
| 1. Statutorily required contribution.                                  | \$3,852     | \$3,473     | \$2,908     |
| 2. Contributions in relation to the statutorily required contribution. | \$(4,140)   | \$(3,466)   | \$(2,898)   |
| 3. Contribution deficiency (excess).                                   | \$(288)     | \$7         | \$10        |
| 4. Employer's covered-employee payroll.                                | \$331,258   | \$296,116   | \$250,192   |
| 5. Contributions as a percentage of covered-employee payroll.          | 1.25%       | 1.17%       | 1.16%       |

\*Complete data for this schedule is not available prior to 2017.

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.



DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education 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.

NOTE 2: CHANGES OF BENEFIT TERMS

*For the ND Public Employees Retirement System (PERS) the interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New main system members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the main system will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.*

*For the Other Post Employment Benefits (OPEB)* beginning January 1, 2020, members enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

NOTE 3: CHANGES OF ASSUMPTIONS

*The ND Teachers' Fund for Retirement* amounts reported in 2016 and later reflect actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

This includes changes to the investment return, inflation, salary scale, administrative expenses, turnover and retirement rates, and mortality tables.

*The ND Public Employees Retirement System* amounts reported in 2016 and later reflect actuarial assumption changes 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. The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75 to 7.5%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

*For the Other Post Employment Benefits (OPEB)* the Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.5% to 7.25%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

**DRAYTON PUBLIC SCHOOL DISTRICT NO. 19  
DRAYTON, NORTH DAKOTA**

**SCHOOL DISTRICT OFFICIALS  
FOR THE YEAR ENDED JUNE 30, 2020**

**Michael Emanuelson  
Michael Larson**

**Board President  
Board Vice-President**

**Jessica Aasand  
Travis Uggerud  
Julie Sott**

**Board Member  
Board Member  
Board Member**

**Dean Ralston**

**Superintendent**

**Judy Stellan**

**Business Manager**