

AUDIT REPORT

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

For the Year Ended June 30, 2020

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

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MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

SCHOOL DISTRICT OFFICIALS

| | |
|-----------------|------------------|
| Pam Ramage | Board President |
| Heather Wisness | Vice President |
| Virginia Ceynar | Board Member |
| Dawn Maki | Board Member |
| Corey Meuchel | Board Member |
| Jake Pennington | Board Member |
| Lisa Samuelson | Board Member |
| Steve Holen | Administrator |
| Brant Hebert | Business Manager |

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
McKenzie County Public School District No. 1
Watford City, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgeting comparison information on pages 30 through 31, and the schedules of employer's share of net pension liability on pages 32 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

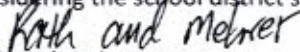
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the school district's basic financial statements. The schedule of fund activity arising from client transactions is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the basic financial statements.

The schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of fund activity arising from client transactions and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021 on our consideration of the school district's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school district's internal control over financial reporting and compliance.


Rath and Mehrer, P.C.

Bismarck, North Dakota

January 8, 2021

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Statement of Net Position
June 30, 2020

| | Governmental Activities |
|---|----------------------------|
| <u>ASSETS:</u> | |
| Cash and Investments | 39,768,600.70 |
| Prepaid Expense | 49,335.36 |
| Taxes Receivable | 511,824.81 |
| Due from County Treasurer | 25,565.03 |
| Intergovernmental Receivables | 2,220,289.23 |
| Capital Assets (net of accumulated depreciation): | |
| Construction in Progress | 23,298,750.00 |
| Buildings | 66,583,928.00 |
| Vehicles | 337,391.00 |
| | 90,220,069.00 |
| Total Capital Assets | |
| | 132,795,684.13 |
| <u>DEFERRED OUTFLOWS OF RESOURCES:</u> | |
| Changes in Resources Related to Pensions | 7,784,387.00 |
| | 7,784,387.00 |
| <u>LIABILITIES:</u> | |
| Interest Payable | 860,993.37 |
| Long-Term Liabilities: | |
| Due Within One Year: | |
| General Obligation Bonds Payable | 3,105,000.00 |
| G.O. School Construction Loans Payable | 916,595.94 |
| Revenue Bonds Payable | 470,000.00 |
| Due After One Year: | |
| General Obligation Bonds Payable | 51,190,000.00 |
| G.O. School Construction Loans Payable | 8,559,943.53 |
| Revenue Bonds Payable | 5,970,000.00 |
| Net Pension Liability | 20,690,052.00 |
| | 20,690,052.00 |
| Total Liabilities | 91,762,584.84 |
| <u>DEFERRED INFLOWS OF RESOURCES:</u> | |
| Changes in Resources Related to Pensions | 2,258,556.00 |
| | 2,258,556.00 |
| <u>NET POSITION:</u> | |
| Net Investment in Capital Assets | 20,008,529.53 |
| Restricted for: | |
| Special Projects | 3,380,234.56 |
| Debt Service | 2,562,820.17 |
| Capital Projects | 25,189,408.17 |
| Unrestricted | (4,582,062.14) |
| | (4,582,062.14) |
| Total Net Position | 46,558,930.29 |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Statement of Activities
For the Year Ended June 30, 2020

| | Program Revenues | | Net (Expense) |
|---------------------------------------|----------------------|-------------------|---------------------|
| | Charges for | Operating Grants | Revenue and |
| Expenses | Services | and Contributions | Changes in |
| | | | Net Position |
| | | | Governmental |
| | | | Activities |
| Governmental Activities: | | | |
| Regular Instruction | 13,945,367.36 | | 228,489.85 |
| Federal Programs | 943,784.49 | | 466,841.03 |
| Special Education | 2,250,680.07 | 136,784.73 | 1,305,023.43 |
| Vocational Education | 476,598.33 | | 131,296.25 |
| District Wide Services | 995,589.62 | | |
| Administration | 802,596.09 | | |
| Operations and Maintenance | 3,864,413.28 | | 133,750.00 |
| Student Transportation | 2,299,102.07 | | 480,189.04 |
| Early Childhood Education Comm. Prog. | 459.23 | | |
| Student Activities | 669,375.91 | 7,646.94 | |
| Tuition and Assessments | 1,051,086.29 | | |
| Food Services | 1,167,179.62 | 518,955.82 | 555,943.73 |
| Interest on Long-Term Debt | 2,379,019.72 | | |
| Unallocated Depreciation | 1,032,727.00 | | |
| Total Governmental Activities | 31,877,979.08 | 663,387.49 | 3,301,533.33 |

General Revenues:

Taxes:

| | |
|--|----------------------|
| Property taxes; levied for general purposes | 9,849,485.62 |
| Property taxes; levied for debt service | 3,408,810.42 |
| Property taxes; levied for building purposes | 2,502,599.10 |
| Homestead tax credit | 6,091.59 |
| Disabled veterans tax credit | 8,148.32 |
| Telecommunication taxes | 26,082.67 |
| Oil and gas production tax | 3,554,454.03 |
| State aid - not restricted to specific program | 10,599,817.10 |
| Federal aid - not restricted to specific program | 6,574,724.20 |
| Earnings on investments and other revenue | 598,959.74 |
| Total General Revenues | 37,129,172.79 |
| Change in Net Position | 9,216,114.53 |
| Net Position - July 1 | 37,342,815.76 |
| Net Position - June 30 | 46,558,930.29 |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Balance Sheet
Governmental Funds
June 30, 2020

| | Major Funds | | | | | Total Governmental Funds |
|--|----------------------|---------------------|-------------------------|----------------------|-----------------|--------------------------------|
| | General | Special Reserve | Sinking and Interest | Building | Food Service | |
| ASSETS: | | | | | | |
| Cash and Investments | 8,054,309.91 | 3,364,847.42 | 3,150,491.32 | 25,198,952.05 | | 39,768,600.70 |
| Prepaid Expense | 49,335.36 | | | | | 49,335.36 |
| Taxes Receivable | 306,665.66 | 14,454.99 | 106,668.82 | 84,035.34 | | 511,824.81 |
| Due from County Treasurer | 17,936.83 | 932.15 | 6,355.99 | 340.06 | | 25,565.03 |
| Intergovernmental Receivables | 2,220,289.23 | | | | | 2,220,289.23 |
| Total Assets | 10,648,536.99 | 3,380,234.56 | 3,263,516.13 | 25,283,327.45 | - | 42,575,615.13 |
| DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | | |
| Deferred Inflows of Resources: | | | | | | |
| Unavailable Revenue | 306,665.66 | 14,454.99 | 106,668.82 | 84,035.34 | | 511,824.81 |
| Fund Balances: | | | | | | |
| Restricted for: | | | | | | |
| Special Projects | | 3,365,779.57 | | | | 3,365,779.57 |
| Debt Service | | | 3,156,847.31 | | | 3,156,847.31 |
| Capital Projects | | | | 25,199,292.11 | | 25,199,292.11 |
| Unassigned | 10,341,871.33 | | | | | 10,341,871.33 |
| Total Fund Balances | 10,341,871.33 | 3,365,779.57 | 3,156,847.31 | 25,199,292.11 | - | 42,063,790.32 |
| Total Deferred Inflows of Resources and Fund Balances | 10,648,536.99 | 3,380,234.56 | 3,263,516.13 | 25,283,327.45 | - | 42,575,615.13 |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended June 30, 2020

| | | |
|--|------------------------|------------------------|
| Total Fund Balances for Governmental Funds | | 42,063,790.32 |
| Total net position reported for governmental activities in the statement of net position is different because: | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. | | |
| Cost of Capital Assets | 102,164,483.00 | |
| Less Accumulated Depreciation | <u>(11,944,414.00)</u> | |
| Net Capital Assets | | 90,220,069.00 |
| Property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds. | | |
| | | 511,824.81 |
| The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources. | | |
| Total Deferred Outflows of Resources | 7,784,387.00 | |
| Total Deferred Inflows of Resources | <u>(2,258,556.00)</u> | |
| Net Deferred Outflows/Inflows of Resources | | 5,525,831.00 |
| Long-term liabilities applicable to the school district's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities -both current and long-term- reported in the statement of net position. Balances at June 30, 2020 are: | | |
| General Obligation Bonds Payable | (54,295,000.00) | |
| G.O. School Construction Loans Payable | (9,476,539.47) | |
| Revenue Bonds Payable | (6,440,000.00) | |
| Interest Payable | (860,993.37) | |
| Net Pension Liability | <u>(20,690,052.00)</u> | |
| Total Long-Term Liabilities | | <u>(91,762,584.84)</u> |
| Total Net Position of Governmental Activities | | <u>46,558,930.29</u> |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended June 30, 2020

Major Funds

| | General | Special Reserve | Sinking and Interest | Building | Food Service | Total Governmental Funds |
|--|----------------------|-------------------|----------------------|------------------------|---------------------|--------------------------|
| Revenues: | | | | | | |
| Local Sources | 10,031,474.43 | 520,416.60 | 3,402,934.83 | 2,623,919.60 | 519,488.64 | 17,098,234.10 |
| County Sources | 3,554,454.03 | | | | | 3,554,454.03 |
| State Sources | 12,741,135.60 | | | | 4,766.39 | 12,745,901.99 |
| Federal Sources | 3,283,678.75 | | | 3,909,556.46 | 571,386.45 | 7,764,621.66 |
| Total Revenues | 29,610,742.81 | 520,416.60 | 3,402,934.83 | 6,533,476.06 | 1,095,641.48 | 41,163,211.78 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Regular Instruction | 11,940,763.36 | | | | | 11,940,763.36 |
| Federal Programs | 943,784.49 | | | | | 943,784.49 |
| Special Education | 2,250,680.07 | | | | | 2,250,680.07 |
| Vocational Education | 476,598.33 | | | | | 476,598.33 |
| District Wide Services | 995,589.62 | | | | | 995,589.62 |
| Administration | 802,596.09 | | | | | 802,596.09 |
| Operations and Maintenance | 3,636,890.48 | | | 219,990.80 | | 3,856,881.28 |
| Student Transportation | 1,950,749.07 | | | | | 1,950,749.07 |
| Early Childhood Ed. Comm. Prog. | 459.23 | | | | | 459.23 |
| Student Activities | 624,803.91 | | | | | 624,803.91 |
| Tuition and Assessments | 1,051,086.29 | | | | | 1,051,086.29 |
| Food Services | | | | | 1,187,388.73 | 1,187,388.73 |
| Capital Outlay | | | | 22,494,000.00 | | 22,494,000.00 |
| Debt Service: | | | | | | |
| Principal | 1,350,000.00 | | 1,440,028.47 | 405,000.00 | | 3,195,028.47 |
| Interest and Service Charges | 393,514.99 | | 1,291,954.33 | 232,071.26 | | 1,917,540.58 |
| Total Expenditures | 26,417,515.93 | - | 2,731,982.80 | 23,351,062.06 | 1,187,388.73 | 53,687,949.52 |
| Excess (Deficiency) of Revenues Over Expenditures | 3,193,226.88 | 520,416.60 | 670,952.03 | (16,817,586.00) | (91,747.25) | (12,524,737.74) |
| Other Financing Sources (Uses): | | | | | | |
| Transfers In | | | | | 86,261.66 | 86,261.66 |
| Transfers Out | (86,261.66) | | | | | (86,261.66) |
| Proceeds from School Construction Loan | | | | 1,927,661.85 | | 1,927,661.85 |
| Total Other Financing Sources (Uses) | (86,261.66) | - | - | 1,927,661.85 | 86,261.66 | 1,927,661.85 |
| Net Change in Fund Balances | 3,106,965.22 | 520,416.60 | 670,952.03 | (14,889,924.15) | (5,485.59) | (10,597,075.89) |
| Fund Balance - July 1 | 7,234,906.11 | 2,845,362.97 | 2,485,895.28 | 40,089,216.26 | 5,485.59 | 52,660,866.21 |
| Fund Balance - June 30 | 10,341,871.33 | 3,365,779.57 | 3,156,847.31 | 25,199,292.11 | - | 42,063,790.32 |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds (10,597,075.89)

The change in net position reported for governmental activities in the statement of activities is different because:

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

| | | |
|-----------------------------------|-----------------------|---------------|
| Current Year Capital Outlay | 22,494,000.00 | |
| Current Year Depreciation Expense | <u>(1,433,184.00)</u> | 21,060,816.00 |

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

| | | |
|-------------------|---------------------|--------------|
| Debt Proceeds | (1,927,661.85) | |
| Repayment of Debt | <u>3,195,028.47</u> | 1,267,366.62 |

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

| | | |
|----------------------------------|-----------------------|----------------|
| Net Increase in Interest Payable | (461,479.14) | |
| Net Increase to Pension Expense | <u>(2,004,604.00)</u> | (2,466,083.14) |

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures

| | | |
|----------------------------------|--|--------------------|
| Net Decrease in Taxes Receivable | | <u>(48,909.06)</u> |
|----------------------------------|--|--------------------|

| | | |
|---|--|----------------------------|
| Change in Net Position of Governmental Activities | | <u><u>9,216,114.53</u></u> |
|---|--|----------------------------|

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020

| | Private-Purpose Trust Fund | Agency Fund |
|----------------------------------|-------------------------------|----------------|
| <u>Assets:</u> | | |
| Cash and Investments | 6,997.37 | 190,736.01 |
| <u>Liabilities:</u> | | |
| Due to Student Activities Groups | | 190,736.01 |
| <u>Net Position:</u> | | |
| Held in Trust For: | | |
| Individuals | 6,997.37 | - |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020

| | <u>Private-Purpose Trust Funds</u> |
|------------------------|--|
| <u>Additions:</u> | |
| Interest Income | <u>6.01</u> |
| Net Position - July 1 | <u>6,991.36</u> |
| Net Position - June 30 | <u><u>6,997.37</u></u> |

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

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Notes to the Financial Statements
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McKenzie County Public School District No. 1 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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. Financial Reporting Entity

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

Based on these criteria, there is one component unit to be included within the McKenzie County Public School District No. 1 as a reporting entity.

COMPONENT UNIT

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component unit have been included in the financial reporting as a blended component unit.

Blended Component Unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government.

McKenzie County Public School District Building Authority. This authority was created in August 2012 under state law. Its board is made up of the school board, the administrator and the business manager of the McKenzie County Public School District. Its purpose is to lease land and construct improvements by issuing revenue bonds. The land and/or improvements are for the district's use only. Bond payments are made by lease payments from the district. Upon payment of the bonds in full, title to improvements will vest with the district.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, McKenzie County Public School District No. 1. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

The school district reports the following major governmental funds:

General Fund. This is the school district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Reserve Fund. This fund accounts for a special mill levy reserved to supplement the budget when revenues are insufficient to meet the requirements of said budget.

Sinking and Interest Fund. This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Building Fund. This fund accounts for financial resources dedicated to the construction of new school buildings, additions to old school buildings, the making of major repairs to existing buildings, or to make annual debt service payments on outstanding debt issues related to the building fund.

The school district reports the following fund types:

Private Purpose Trust Fund. This fund is used to account for resources legally held in trust for scholarships to students. All resources of the fund, including earnings on investments, are used for scholarships.

Agency Fund: This fund account for assets held by the school district in a custodial capacity as an agent on behalf of others. The school district's agency fund is used to account for various deposits of the student activity funds.

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

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The school district considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences,

which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposit stated at cost.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

E. Capital Assets

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

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

| | |
|-----------|----------------|
| Buildings | 25 to 75 years |
| Vehicles | 6 to 10 years |

G. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

H. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I. Pensions

For purposes of measuring 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 Teacher's Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS); additions to/deductions from TFFR's and NDPERS' fiduciary net position have been determined on the same basis as they are reported by TFFR and 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.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

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

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

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school district or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the school board through the adoption of a resolution. The school board also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The school district reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

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

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the school district has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

K. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the school district maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At June 30, 2020 the school district's carrying amount of deposits was \$39,966,334 and the bank balance was \$43,132,616. Of the bank balance, \$755,426 was covered by Federal Depository Insurance. Of the remaining balance, \$42,377,190 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The school district may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At June 30, 2020, the school district held certificates of deposit in the amount of \$21,501,043, which are all considered deposits.

Concentration of Credit Risk

The school district does not have a limit on the amount the school district may invest in any one issuer.

Note 3 PREPAID EXPENSE

Prepaid expense consists of amounts paid in 2020, which are applicable to 2021. It is the intent of the school district to expense these items in the subsequent year.

Note 4 TAXES RECEIVABLE

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

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 5 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the school district at June 30.

Note 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due from the Wil-Mac Multidistrict Special Education Unit for excess special education costs and student tuition for the year ended June 30, 2020, the Bankhead Jones payment and the vocational education reimbursement due at June 30, 2020 but received subsequent to that date.

Note 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2020:

| | Balance July 1 | Increases | Decreases | Balance June 30 |
|--|-------------------|--------------------|----------------|--------------------|
| Governmental Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Construction in Progress | 804,750 | 22,494,000 | | 23,298,750 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 75,253,756 | | | 75,253,756 |
| Vehicles | 3,785,727 | | 173,750 | 3,611,977 |
| Total | 79,039,483 | - | 173,750 | 78,865,733 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | 7,571,314 | 1,098,514 | | 8,669,828 |
| Vehicles | 3,113,666 | 334,670 | 173,750 | 3,274,586 |
| Total | 10,684,980 | 1,433,184 | 173,750 | 11,944,414 |
| Total capital assets being depreciated, net | 68,354,503 | (1,433,184) | - | 66,921,319 |
| Governmental Activities Capital Assets, Net | 69,159,253 | 21,060,816 | - | 90,220,069 |

Depreciation expense was charged to functions/programs of the school district as follows:

| | |
|-----------------------------------|------------------|
| Operations and Maintenance | 7,532 |
| Student Transportation | 348,353 |
| Student Activities | 44,572 |
| Unallocated Depreciation | 1,032,727 |
| Total Depreciation Expense | 1,433,184 |

Note 8 INTEREST PAYABLE

Interest payable consists of interest on long-term liabilities accrued to June 30, 2020.

Note 9 UNAVAILABLE REVENUE

Unavailable revenue on the fund financial statements consists of amounts 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, such amounts are measurable but not available and include taxes receivable.

Note 10 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended June 30, 2020, the following changes occurred in liabilities reported in the long-term liabilities – Governmental Activities:

| | Balance July 1 | Increases | Decreases | Balance June 30 | Due Within One Year |
|---------------------------------|-------------------|------------------|------------------|--------------------|------------------------|
| General Obligation Bonds | 56,530,000 | | 2,235,000 | 54,295,000 | 3,105,000 |
| State School Construction Loans | 8,048,906 | 1,927,662 | 500,028 | 9,476,540 | 916,596 |
| Revenue Bonds | 6,900,000 | | 460,000 | 6,440,000 | 470,000 |
| Total | <u>71,478,906</u> | <u>1,927,662</u> | <u>3,195,028</u> | <u>70,211,540</u> | <u>4,491,596</u> |

Outstanding debt at June 30, 2020 consists of the following:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government.

Bonds and Loans Payable. The school district has issued general obligation bonds and loans to provide funds for the construction and renovation of major capital facilities:

| | |
|--|----------------------|
| \$2,695,000 Limited Tax Bonds, Series 2013, due in annual installments of \$175,000 to \$200,000 through August 1, 2027; interest is at 1% to 1.9% | 1,480,000.00 |
| \$17,000,000 General Obligation School Building Bonds, Series 2014, due in annual installments of \$765,000 to \$2,085,000 through August 1, 2029; interest is at 2% to 4%. | 14,285,000.00 |
| \$7,000,000 State School Construction Loan, Series 2015, due in annual payments of \$406,362.27 through June 1, 2034; payments include interest at 1%. | 5,284,214.34 |
| \$3,000,000 State School Construction Loan, Series 2015B, due in annual payments of \$174,155.26 through June 1, 2034; payments include interest at 1%. | 2,264,663.28 |
| \$7,025,000 General Obligation Building Fund Bonds, Series 2015 due in annual installments of \$320,000 to \$470,000 through August 1, 2034; interest is at 3% to 3.5%. | 5,785,000.00 |
| \$1,975,000 General Obligation Building Fund Bonds, Series 2016, due in annual installments of \$85,000 to \$140,000 through August 1, 2035; interest is at 2% to 3%. | 1,720,000.00 |
| \$7,820,000 State Aid Refunding Certificates of Indebtedness, Series 2016, due in annual installments of \$890,000 to \$1,080,000 through August 1, 2038; interest is at 2.75% to 3.75%. | 6,025,000.00 |
| \$25,000,000 General Obligation School Building Bonds, Series 2019A, due in annual installments of \$730,000 to \$1,905,000 through August 1, 2038; interest is at 4% to 5%. | <u>25,000,000.00</u> |
| Total Bonds and Loans Payable | <u>61,843,877.62</u> |

The annual requirements to amortize the outstanding general obligation bond and loan debt are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------------------|-------------------|-------------------|
| 2021 | 3,610,029 | 2,025,255 |
| 2022 | 3,900,079 | 2,020,517 |
| 2023 | 4,100,180 | 1,880,575 |
| 2024 | 4,300,332 | 1,735,882 |
| 2025 | 4,545,535 | 1,586,741 |
| 2026-2030 | 21,117,564 | 5,576,977 |
| 2031-2035 | 12,735,159 | 2,600,449 |
| 2036-2040 | 7,535,000 | 593,700 |
| Total | <u>61,843,878</u> | <u>18,020,096</u> |

The school district has received funding as part of the School Construction Assistance Revolving Loan Fund (SCARLF) from the Bank of North Dakota. The school is in the process of constructing a new elementary school and issued the State School Construction Loan, Series 2020 in the amount of \$10,000,000.00. As of June 30, 2020, the school district had requested drawdowns of \$1,927,661.85. The project was not completed as of June 30, 2020 and a final debt service repayment schedule is not available since the school district has not yet received the full amount of the drawdowns under this agreement. The outstanding balance at June 30, 2020 was \$1,927,661.85. The school district has \$8,072,338.15 still available as of June 30, 2020.

Component Unit Debt

Revenue Bonds. The McKenzie County Public School District Building Authority issued bonds whereby the authority pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2020 are as follows:

| | |
|---|---------------------|
| \$9,870,000 Lease Revenue Bonds, Series 2012, due in annual installments of \$460,000 to \$615,000 through May 1, 2032; interest is at 2% to 2.85%. | <u>6,440,000.00</u> |
|---|---------------------|

The annual requirements to amortize the outstanding revenue bonds are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------------------|------------------|------------------|
| 2021 | 470,000 | 159,308 |
| 2022 | 480,000 | 149,907 |
| 2023 | 490,000 | 140,068 |
| 2024 | 500,000 | 129,532 |
| 2025 | 515,000 | 118,283 |
| 2026-2030 | 2,770,000 | 395,117 |
| 2031-2033 | 1,215,000 | 51,855 |
| Total | <u>6,440,000</u> | <u>1,144,070</u> |

Note 11 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended June 30, 2020:

| <u>Fund</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------------|--------------------|---------------------|
| Food Service General | 86,261.66 | 86,261.66 |
| To subsidize expenditures. | | |

Note 12 RISK MANAGEMENT

The McKenzie County Public School District No. 1 is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The school district pays an annual premium to NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF is limited to losses of \$5,000,000 per occurrence for general liability and automobile.

The school district also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The school district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the school district with a blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The school district has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 13 PENSION PLANS

1. North Dakota Teachers' Fund for Retirement

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC 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.

Pension Benefits

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

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 equals 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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.

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 for all three categories are determined by NDCC Section 15-39.1-10. *Tier 1* 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. *Tier 2* Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned.

Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

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

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

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also

pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70.5. 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 McKenzie County Public School District reported a liability of \$17,447,291 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 district's proportion of the net pension liability was based on the district's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2019 the school district's proportion was 1.266818 percent, which was an increase of .151085 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the school district recognized pension expense of \$2,764,682. At June 30, 2020 the school district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | 24,913 | 629,679 |
| Changes in assumptions | 620,106 | - |
| Net difference between projected and actual earnings on pension plan investments | 245,590 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,537,630 | - |
| District contributions subsequent to the measurement date (see below) | <u>1,326,342</u> | <u>-</u> |
| Total | <u>5,754,581</u> | <u>629,679</u> |

\$1,326,342 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

| Year ended June 30: | |
|------------------------|-----------|
| 2020 | 1,284,996 |
| 2021 | 870,911 |
| 2022 | 583,674 |
| 2023 | 507,638 |
| 2024 | 313,992 |
| Thereafter | 237,349 |

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

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using the 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 rates lowered by 0.25% due to lower inflation.
- * Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- * Rates of turnover and retirement were changed to better reflect anticipated future experience.
- * Updated mortality assumption to the RP-2014 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% | 6.90% |
| Global Fixed Income | 23% | 2.10% |
| Global Real Assets | 18% | 5.40% |
| Cash Equivalents | 1% | 0.00% |

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employee contributions will be made at rates equal to those based on the July 1, 2019, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of 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 school district's proportionate share of the net pension liability to changes in the discount rate. The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------|------------------------|
| The district's proportionate share of the net pension liability | 23,562,743 | 17,447,291 | 12,365,194 |

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

2. 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 NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program 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 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 the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of 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, the McKenzie County Public School District reported a liability of \$3,242,761 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 district's proportion of the net pension liability was based on the district'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 the district's proportion was .276669 percent, which was an increase of .009530 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the district recognized pension expense of \$788,312. At June 30, 2020 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | 1,921 | 588,499 |
| Changes in assumptions | 1,211,734 | 1,040,379 |
| Net difference between projected and actual earnings on pension plan investments | 56,497 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 535,481 | (1) |
| District contributions subsequent to the measurement date (see below) | <u>224,173</u> | <u>-</u> |
| Total | <u>2,029,806</u> | <u>1,628,877</u> |

\$224,173 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

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

| Year ended June 30: | |
|------------------------|-----------|
| 2020 | 304,996 |
| 2021 | 196,328 |
| 2022 | 8,828 |
| 2023 | (245,938) |
| 2024 | (87,458) |
| Thereafter | - |

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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not setback for females) multiplied by 125%.

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2019. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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> |
|-----------------------------|--------------------------|---|
| Domestic Equity | 30% | 6.25% |
| International Equity | 21% | 6.95% |
| Private Equity | 7% | 10.15% |
| Domestic Fixed Income | 23% | 2.11% |
| International Equity Income | 0% | 0.00% |
| Global Real Assets | 19% | 5.41% |
| Cash Equivalents | 0% | 0.00% |

Discount rate. For PERS, GASB 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 district's proportionate share of the net pension liability to changes in the discount rate. The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the district'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:

| | 1% Decrease <u>(6.50%)</u> | Current Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|---|-------------------------------|--------------------------------|-------------------------------|
| The district's proportionate share of the net pension liability | 4,649,421 | 3,242,761 | 2,060,920 |

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

Note 14 OTHER POSTEMPLOYMENT BENEFITS

The school district is required to implement GASB Statement No. 75, Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions. The effect of this statement is not material to the school district's financial statements.

Note 15 TAX ABATEMENTS

The school district has not entered into any tax abatement agreements that would reduce the district's tax revenues for the year ended June 30, 2020.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2020

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| <u>Revenues:</u> | | | | |
| Local Sources | 9,204,488.68 | 9,204,488.68 | 10,031,474.43 | 826,985.75 |
| County Sources | 2,997,204.46 | 2,997,204.46 | 3,554,454.03 | 557,249.57 |
| State Sources | 12,596,244.54 | 12,596,244.54 | 12,741,135.60 | 144,891.06 |
| Federal Sources | 3,119,711.89 | 3,119,711.89 | 3,283,678.75 | 163,966.86 |
| Total Revenues | 27,917,649.57 | 27,917,649.57 | 29,610,742.81 | 1,693,093.24 |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Regular Instruction | 12,768,858.95 | 12,768,858.95 | 11,940,763.36 | 828,095.59 |
| Federal Programs | 938,990.26 | 938,990.26 | 943,784.49 | (4,794.23) |
| Special Education | 2,361,930.51 | 2,361,930.51 | 2,250,680.07 | 111,250.44 |
| Vocational Education | 729,837.67 | 729,837.67 | 476,598.33 | 253,239.34 |
| District Wide Services | 995,312.41 | 995,312.41 | 995,589.62 | (277.21) |
| Administration | 874,157.89 | 874,157.89 | 802,596.09 | 71,561.80 |
| Operations and Maintenance | 4,627,411.15 | 4,627,411.15 | 3,636,890.48 | 990,520.67 |
| Student Transportation | 2,082,600.00 | 2,082,600.00 | 1,950,749.07 | 131,850.93 |
| Early Childhood Ed. Comm. Prog. | 59,551.30 | 59,551.30 | 459.23 | 59,092.07 |
| Student Activities | 819,423.82 | 819,423.82 | 624,803.91 | 194,619.91 |
| Tuition and Assessments | 1,056,732.45 | 1,056,732.45 | 1,051,086.29 | 5,646.16 |
| Debt Service: | | | | |
| Principal | 1,383,266.04 | 1,383,266.04 | 1,350,000.00 | 33,266.04 |
| Interest and Service Charges | | | 393,514.99 | (393,514.99) |
| Total Expenditures | 28,698,072.45 | 28,698,072.45 | 26,417,515.93 | 2,280,556.52 |
| Excess (Deficiency) of Revenues Over Expenditures | (780,422.88) | (780,422.88) | 3,193,226.88 | 3,973,649.76 |
| <u>Other Financing (Uses):</u> | | | | |
| Transfers Out | | | (86,261.66) | (86,261.66) |
| Net Change in Fund Balance | (780,422.88) | (780,422.88) | 3,106,965.22 | 3,887,388.10 |
| Fund Balance - July 1 | 7,234,906.11 | 7,234,906.11 | 7,234,906.11 | |
| Fund Balance - June 30 | 6,454,483.23 | 6,454,483.23 | 10,341,871.33 | 3,887,388.10 |

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Notes to the Budgetary Comparison Schedule
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

School district taxes must be levied by the governing board on or before August 10. The taxes levied must be certified to the county auditor by August 10. The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by October 10. 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.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board did not amend the budget during the year ended June 30, 2020.

Note 3 A budget was not adopted for the Special Reserve Fund as no expenditures were anticipated and no taxes were levied for the 2019 tax year.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Teacher's Fund for Retirement
Last 10 Fiscal Years*

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------|------------|------------|------------|------------|-----------|
| District's proportion of the net pension liability | 1.266818% | 1.115733% | 1.045420% | 1.001983% | 0.909210% | 0.767411% |
| District's proportionate share of the net pension liability | 17,447,291 | 14,871,133 | 14,359,114 | 14,785,128 | 11,891,150 | 8,041,107 |
| District's covered employee payroll | 8,887,089 | 7,588,443 | 7,052,705 | 6,556,747 | 5,585,064 | 4,451,391 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 196.32% | 195.97% | 203.60% | 225.49% | 212.91% | 180.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.50% | 65.50% | 63.20% | 59.20% | 62.10% | 66.60% |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------|-----------|-----------|-----------|-----------|-----------|
| Statutorily required contribution | 1,133,104 | 967,526 | 899,219 | 835,986 | 712,700 | 478,509 |
| Contributions in relation to the statutorily required contributions | (1,133,104) | (967,526) | (899,219) | (835,986) | (712,700) | (478,509) |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | 8,887,089 | 7,588,443 | 7,052,705 | 6,556,747 | 5,585,064 | 4,451,391 |
| Contributions as a percentage of covered-employee payroll | 12.75% | 12.75% | 12.75% | 12.75% | 12.75% | 10.75% |

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

- For changes of assumptions, see Note 13 to the financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years *

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| District's proportion of the net pension liability | 0.276669% | 0.267139% | 0.222782% | 0.185103% | 0.181762% | 0.154311% |
| District's proportionate share of the net pension liability | 3,242,761 | 4,508,262 | 3,580,838 | 1,804,009 | 1,235,951 | 979,445 |
| District's covered-employee payroll | 2,889,312 | 2,601,318 | 2,291,553 | 2,076,932 | 1,935,882 | 1,433,167 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 112.23% | 173.31% | 156.26% | 86.86% | 63.84% | 68.34% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.60% | 62.80% | 61.98% | 70.46% | 77.15% | 77.70% |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Statutorily required contribution | 205,719 | 185,214 | 163,149 | 147,878 | 137,937 | 96,139 |
| Contributions in relation to the statutorily required contributions | (205,719) | (185,214) | (163,149) | (147,878) | (137,937) | (96,139) |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 |
| District's covered-employee payroll | 2,889,312 | 2,601,318 | 2,291,553 | 2,076,932 | 1,935,882 | 1,433,167 |
| Contributions as a percentage of covered-employee payroll | 7.12% | 7.12% | 7.12% | 7.12% | 7.12% | 6.71% |

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

- For changes of assumptions, see Note 13 to the financial statements.

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Schedule of Fund Activity Arising from Client Transactions

For the Year Ended June 30, 2020

| | Balance 7/1/2019 | Revenues | Transfers In | Transfers Out | Expenditures | Balance 6/30/2020 |
|-----------------------------------|---------------------|---------------|-----------------|------------------|---------------|----------------------|
| General Fund | 5,269,993.89 | 29,337,428.97 | | 86,261.66 | 26,417,515.93 | 8,103,645.27 |
| <u>Special Revenue Funds</u> | | | | | | |
| Special Reserve | 2,845,022.72 | 519,824.70 | | | | 3,364,847.42 |
| Food Service | 3,543.51 | 1,024,402.06 | 86,261.66 | | 1,114,207.23 | - |
| Total Special Revenue Funds | 2,848,566.23 | 1,544,226.76 | 86,261.66 | - | 1,114,207.23 | 3,364,847.42 |
| <u>Debt Service Fund</u> | | | | | | |
| Sinking and Interest | 2,481,542.82 | 3,400,931.30 | | | 2,731,982.80 | 3,150,491.32 |
| <u>Capital Projects Fund</u> | | | | | | |
| Building | 40,084,866.35 | 8,465,147.76 | | | 23,351,062.06 | 25,198,952.05 |
| <u>Fiduciary Funds</u> | | | | | | |
| <u>Private Purpose Trust Fund</u> | | | | | | |
| Scholarships | 6,991.36 | 6.01 | | | | 6,997.37 |
| <u>Agency Fund</u> | | | | | | |
| Student Activity Funds | 205,935.35 | 275,557.77 | | | 290,757.11 | 190,736.01 |
| Total Fiduciary Funds | 212,926.71 | 275,563.78 | - | - | 290,757.11 | 197,733.38 |
| Total All Funds | 50,897,896.00 | 43,023,298.57 | 86,261.66 | 86,261.66 | 53,905,525.13 | 40,015,669.44 |

The above schedule is reported on a client basis, which includes an adjustment to cash and investments for prepaid expense in the general fund.

MCKENZIE PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

| Federal Grantor Pass-Through Grantor Program Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Expenditures |
|---|--|---|--------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Passed Through State Department of Public Instruction: | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | | 59,022.31 |
| National School Lunch Program | 10.555 | | 250,355.84 |
| National School Lunch Program - Commodities | 10.555 | | 73,181.50 |
| Summer Food Service Program for Children | 10.559 | | 183,187.78 |
| Total Child Nutrition Cluster | | | 565,747.43 |
| State Administrative Expenses for Child Nutrition | 10.560A | | 5,639.02 |
| Total Passed Through State Department of Public Instruction | | | 571,386.45 |
| Passed Through McKenzie County: | | | |
| Bankhead Jones - Schools and Roads - Grants to Counties | 10.666 | | 3,222,638.23 |
| Total Department of Agriculture | | | 3,794,024.68 |
| <u>U.S. Department of the Interior</u> | | | |
| Passed Through McKenzie County: | | | |
| Flood Control Act Lands | 15.433 | | 3,047,205.14 |
| Mineral Leasing Act | 15.437 | | 304,880.83 |
| Total U.S. Department of the Interior | | | 3,352,085.97 |
| <u>U.S. Department of Education</u> | | | |
| Passed Through Tioga Public School District: | | | |
| Vocational Education - Basic Grants to States | 84.048 | | 17,919.98 |
| Passed Through Great Northwest Regional Education Association: | | | |
| English Language Acquisition State Grants | 84.365 | | 17,788.56 |
| Passed Through State Department of Public Instruction: | | | |
| Title I, Grants to Local Education Agencies | 84.010 | | 309,646.47 |
| Improving Teacher Quality State Grants | 84.367 | | 87,308.00 |
| Comprehensive Literacy State Development | 84.424A | | 52,098.00 |
| Total Passed Through State Department of Public Instruction | | | 449,052.47 |
| Total Department of Education | | | 484,761.01 |
| <u>U.S. Department of Homeland Security</u> | | | |
| Passed Through State Department of Emergency Services: | | | |
| Homeland Security Grant Program | 97.067 | | 133,750.00 |
| Total Expenditures of Federal Awards | | | 7,764,621.66 |

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA
Todd Goehring, CPA

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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*

INDEPENDENT AUDITOR'S REPORT

Governing Board
McKenzie County Public School District No. 1
Watford City, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McKenzie County Public School District No. 1, Watford City, North Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated January 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district'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*.

School District's Response to Findings

The school district's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The school district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

January 8, 2021

Rath & Mehrer, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
McKenzie County Public School District No. 1
Watford City, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the McKenzie County Public School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the school district's major federal programs for the year ended June 30, 2020. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the district's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the school district's compliance.

Opinion on Each Major Federal Program

In our opinion, the school district complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

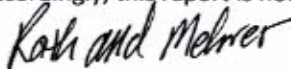
Report on Internal Control Over Compliance

Management of the McKenzie County Public School District No. 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the school district's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rath and Mehrer, P.C.

Bismarck, North Dakota

January 8, 2021

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Schedule of Findings and Responses
For the Year Ended June 30, 2020

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor’s Report Issued:

| | |
|--------------------------------------|------------|
| Governmental Activities | Unmodified |
| Major Governmental Funds | Unmodified |
| Aggregate Remaining Fund Information | Unmodified |

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor’s report issued on compliance for major program(s):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major program(s):

Federal Assistance Listing Number

Name of Federal Program

15.433

Flood Control Act Lands

Dollar threshold used to distinguish between type A and type B Programs:

\$750,000

Auditee qualified as a low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2020-001 – Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The school district has one person responsible for most accounting functions. The 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 bank reconciliations.

Cause: The school district does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The school district is aware of the condition and segregates duties whenever possible.

Repeat Finding from Prior Year: Yes, prior year finding No. 2019-001

2. 2020-002- Financial Statement Preparation

Criteria: A good system of internal controls requires the school district to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the school district must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The school district's financial statements, including the accompanying note disclosures, are prepared by the school district's external auditors.

Cause: The school district feels that it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to external distribution.

Views of Responsible officials: The school district will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.

Repeat Finding from Prior Year: Yes, prior year finding No. 2019-002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported

MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2020

1. Finding No. 2019-001: Segregation of Duties

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2020-001.

Reasons for Recurrence and Corrective Action Plan: The school district has determined that it is not cost effective to employ additional personnel just to adequately segregate duties. See Corrective Action Plan.

2. Finding No. 2019-002: Financial Statement Preparation

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2020-002.

Reasons for Recurrence and Corrective Action Plan: The school district feels it is more cost effective to have their external auditors prepare the financial statements and note disclosures. See Corrective Action Plan.



McKenzie County Public School District No. 1

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MCKENZIE COUNTY PUBLIC SCHOOL DISTRICT NO. 1
Watford City, North Dakota

Corrective Action Plan
For the Year Ended June 30, 2020

1. Finding No. 2020-001: Segregation of Duties

Contact Person: Brant Hebert, Business Manager

Corrective Action Plan: The school district has determined that it is not cost effective to employ additional personnel just to adequately segregate duties.

Completion Date: The McKenzie County School District No. 1 will implement when it becomes cost effective.

2. Finding No. 2020-002: Financial Statement Preparation

Contact Person: Brant Hebert, Business Manager

Corrective Action Plan: The school district feels that it is more cost effective to have their external auditors prepare the financial statements and note disclosures.

Completion Date: The McKenzie County Public School District No. 1 will implement when it becomes cost effective.