

**EAST CENTRAL CENTER  
FOR EXCEPTIONAL CHILDREN**

NEW ROCKFORD, NORTH DAKOTA

Basic Financial Statements  
as of  
June 30, 2019  
and  
Independent Auditor's Report



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

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

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Jamestown, ND 58401-4249

509 Main Avenue  
Edgeley, ND 58433-7119

East Central Center for Exceptional Children

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East Central Center for Exceptional Children  
New Rockford, North Dakota

**List of Officials**

**Members**

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**District**

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**Office**

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Nancy Bollingberg

Fessenden-Bowdon

Chairman

Natalie Becker

New Rockford Sheyenne

Vice Chairman

Kurt Hayes

Pingree-Buchanan

Board Member

Jenna Helseth

Carrington

Board Member

Jill Louters

New Rockford-Sheyenne

Board Member

Brian Duchscherer

Carrington

Board Member

Lane Azure

Oberon

Board Member

Matthew Lokemoen

Kensal

Board Member

\* \* \* \* \*

Ashly Wolsky

Director

Susette Allmaras

Business Manager

# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

*Trusted Accounting Professionals*



**Beth A. Dempsey, CPA**

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## INDEPENDENT AUDITOR'S REPORT

To the Chairman and Board  
East Central Center for Exceptional Children  
New Rockford, North Dakota

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **East Central Center for Exceptional Children**, New Rockford, North Dakota as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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East Central Center for Exceptional Children  
**INDEPENDENT AUDITOR'S REPORT** (Continued)

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of **East Central Center for Exceptional Children**, New Rockford, North Dakota, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and employer retirement schedules on pages 6 through 11 and 40 through 53 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.

East Central Center for Exceptional Children  
**INDEPENDENT AUDITOR'S REPORT** (Continued)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2019, on our consideration of **East Central Center for Exceptional Children'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 **East Central Center for Exceptional Children's** internal control over financial reporting and compliance.

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
July 19, 2019

East Central Center for Exceptional Children  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

The Management's Discussion and Analysis (MD&A) section of **East Central Center for Exceptional Children's** financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2019. The intent of the MD&A is to look at the Center's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the Center's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2019 are as follows:

- \* Net position of **East Central Center for Exceptional Children** decreased by \$176,313 as a result of the current year's operations.
- Total revenues from all sources were \$2,377,221.
- Total expenditures were \$2,553,534.
- The Center's net position as of the end of the fiscal year totaled \$(1,781,014).
- The Center's general fund had \$2,377,221 in total revenues and \$2,400,635 in expenditures.
- Overall the general fund balance decreased by \$23,414 for the year ended June 30, 2019.

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

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

### **Government-wide Financial Statements**

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

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

The second government-wide statement is the *Statement of Activities* which reports how the Center's net position changed during the current fiscal year. All current year revenues and



East Central Center for Exceptional Children  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Center's distinct activities or functions on revenues provided.

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

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

**Fund Financial Statements**

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

**Governmental Funds**

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

**Notes to the Financial Statements**

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

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

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

East Central Center for Exceptional Children  
**MANAGEMENT'S DISCUSSION AND ANALYSIS** (Continued)

The Center's net position at fiscal year-end is \$(1,781,014). This is an 11.1% decrease over last year's net position of \$(1,604,701). The following tables provide a summary of the Center's net position and the changes in net position at June 30, 2019 and 2018.

**Table 1:** Summary of Net Position

	2018	2019
<b>ASSETS</b>		
Current assets	\$117,279	\$82,600
Due from governmental agencies	-	\$72,292
Capital assets (net of depreciation)	98,596	78,262
Deferred outflows of resources	679,351	589,914
Total Assets and Deferred Outflows of Resources	895,226	823,068
<b>LIABILITIES</b>		
Current liabilities	20,917	81,944
Net pension liability	2,239,143	2,335,686
Total Liabilities	2,360,060	2,417,630
Deferred inflows of resources	139,867	186,452
<b>NET POSITION</b>		
Net investment in capital assets	98,596	78,262
Unrestricted	(1,703,297)	(1,859,276)
Total Net Position	\$(1,604,701)	\$(1,781,014)

East Central Center for Exceptional Children  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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

	2018	2019	Variance 2018 - 2019
<b>REVENUES</b>			
Program Revenues:			
Operating Grants	\$13,179	\$13,328	\$149
Tuition	1,630,072	1,656,396	26,324
General Revenues:			
State Sources	307,021	363,971	56,950
Federal Grants	338,350	340,632	2,282
Interest Income	1,344	994	(350)
Rental Income	1,800	1,800	0
Other Sources	50	100	50
Total Revenues	<u>2,291,816</u>	<u>2,377,221</u>	<u>85,405</u>
<b>EXPENDITURES</b>			
Instruction	1,313,205	1,419,617	(106,412)
Support Services:			
Social Work	56,219	48,399	7,820
Psychological Services	34,036	36,777	(2,741)
Occupational Therapy	74,744	75,387	(643)
Educational Diagnostics	2,907	2,384	523
Family Educator Project	1,030	580	450
Vocational Work Experience	60,791	61,102	(311)
Low Incidence, Inclusion Act	177,644	174,776	2,868
Speech Pathology	333,338	337,799	(4,461)
Administration	218,256	211,278	6,978
Operations & Maintenance	13,346	12,325	1,021
Instructional Support	34,140	40,545	(6,405)
Pension Expense	137,302	132,565	4,737
Total Expenditures	<u>2,456,958</u>	<u>2,553,534</u>	<u>(96,576)</u>
Increase (Decrease) in Net Position	<u><u>\$(165,142)</u></u>	<u><u>\$(176,313)</u></u>	<u><u>\$(11,171)</u></u>

East Central Center for Exceptional Children  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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

The focus of the Center's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally may be used as a measure of the Center's resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The Center's governmental funds had total revenues of \$2,377,221 and expenditures of \$2,400,635 for the year ended June 30, 2019. As of June 30, 2019, the total unrestricted fund balance of the Center's general fund was \$72,948. The net resources available for spending in the Center's general fund decreased.

The Center derived its revenue from local, state, and federal sources. Local financial resources were obtained through a three-part assessment process whereby each participating school district contributed (1) 5 mills of taxable valuation, (2) 50% of their state special ed foundation aid and (3) individual assessments for learning disabilities teachers and speech pathologists. State revenues were generated primarily from student contract reimbursement, while federal revenues were received from IDEA-B and Preschool Grants.

Local Revenue	\$1,659,290
State Revenue	\$363,971
Federal Revenue	\$353,960

**General Fund Budget Highlights**

During the course of the fiscal year 2018-2019, East Center Special Education's original budget was not amended with the board projecting a deficit. Actual revenue for the year ended June 30, 2019 was \$330,254 more than budgeted. Actual expenditures were over budget by \$344,241. The budget is used as a spending guide that the Center takes seriously.

**Capital Assets**

East Central Center for Exceptional Children's capital asset account consists of one central office building in New Rockford, ND and the improvements made to that building and equipment. As of June 30, 2019, the Center has \$78,262 invested in capital assets. As indicated in Note 3, capital assets did not increase during the fiscal year.

**Debt Administration**

As of June 30, 2019, East Central Center for Exceptional Children had no debt.

EAST CENTRAL CENTER FOR EXCEPTIONAL CHILDREN  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Significant Factors that can Affect the Financial Position or Results of Operations for the Future.**

1. Due to difficulty in recruiting and hiring qualified staff, alternative means of delivering special education services is done through online services via the computer.
2. There will be out of district student placements which will increase the unit's costs in the current budget. There are currently 3 students at Anne Carlsen Center and 1 at Sheyenne Valley.
3. One of the unit's certified teacher had a child; their maternity leave was covered with accrued sick/person leave and the unit had to pay for a substitute teacher. There is another maternity leave projected for this year as well.
4. A student was placed in a separate setting requiring a certified teacher and paraprofessional to serve the student at an alternative location. The unit needed to hire a teacher sub and an additional paraprofessional to serve this student.
5. Paraprofessionals continue to be a high cost based on student needs both in the elementary and secondary grades.

**Contacting the Center's Financial Management**

This financial report is designed to provide a general overview of East Central Center for Exceptional Children's finances and to show the accountability for the money received. Anyone who has questions about information contained in this report or is interested in receiving additional information is encouraged to contact East Central Center for Exceptional Children, Sixteen South Eighth, New Rockford, North Dakota 58356; phone 701-947-5015.

East Central Center for Exceptional Children

**STATEMENT OF NET POSITION**

As of June 30, 2019

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$82,600
Due from government agencies	72,292
Capital Assets	302,536
Less accumulated depreciation	<u>224,274</u>
Total capital assets	<u>78,262</u>
Total Assets	<u>233,154</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	589,914
<b>LIABILITIES</b>	
Benefits payable	34,478
Accounts payable	47,466
Net pension liability	<u>2,335,686</u>
Total Liabilities	<u>2,417,630</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	186,452
<b>NET POSITION</b>	
Net investment in capital assets	78,262
Unrestricted	<u>(1,859,276)</u>
Total Net Position	<u><u>\$(1,781,014)</u></u>

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

East Central Center for Exceptional Children  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2019

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants / Contribution	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Preschool	\$74,266	\$-	\$13,328	\$(60,938)
Educable mentally	90,796	-	-	(90,796)
Training mentally	60,359	-	-	(60,359)
Learning disabled	855,787	-	-	(855,787)
Multiple handicapped	338,409	-	-	(338,409)
<b>Support services:</b>				
Social work	48,399	-	-	(48,399)
Psychological	36,777	-	-	(36,777)
Occupational therapy	75,387	-	-	(75,387)
Educational diagnostics	2,384	-	-	(2,384)
Family educator project	580	-	-	(580)
Vocational work experience	61,102	-	-	(61,102)
Low incidence, inclusion act	174,776	-	-	(174,776)
Speech pathology	337,799	-	-	(337,799)
Administration	211,278	-	-	(211,278)
Operation & maintenance	12,325	-	-	(12,325)
Instruction support	40,545	-	-	(40,545)
Pension Expense	132,565	-	-	(132,565)
<b>Total Governmental Activities</b>	<b><u>\$2,553,534</u></b>	<b><u>\$-</u></b>	<b><u>\$13,328</u></b>	<b><u>\$(2,540,206)</u></b>
<b>General Revenues:</b>				
Tuition from local sources				1,656,396
State sources not restricted				363,971
Federal sources - grants				340,632
Interest & investment income				994
Rental income				1,800
Other sources				100
<b>Total General Revenues</b>				<b><u>\$2,363,893</u></b>
Change in net position				(176,313)
Net position, beginning of year				(1,604,701)
Net position, end of year				<b><u>\$(1,781,014)</u></b>

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

East Central Center for Exceptional Children  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
As of June 30, 2019

	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$82,600	\$82,600
Due from government agencies	72,292	72,292
Total Assets	\$154,892	\$154,892
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Benefits payable	34,478	34,478
Accounts payable	47,466	47,466
Total liabilities	\$81,944	\$81,944
 <b>FUND BALANCES</b>		
Unassigned	72,948	72,948
Total fund balance	\$72,948	\$72,948
Total Liabilities and Fund Balances	\$154,892	\$154,892

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



**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION**

As of June 30, 2019

**Total fund balance - governmental funds** \$72,948

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

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

Cost of Capital Assets	302,536	
Less Accumulated Depreciation	224,274	
Net Capital Assets		78,262

A deferred outflows of resources related to pensions is not considered an asset for the governmental fund financials, but are reported in the governmental activities of the Statement of Net Position	589,914
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A net pension obligation should be reported as a liability in the government-wide Statement of Net Position. Conversely, a net position obligation is not considered to represent a financial liability, therefore, it is not properly reported in a governmental fund	(2,335,686)
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A deferred inflow of resources related to pension is not considered a liability for the governmental fund financials but are reported in the governmental activities of Net Position.	<u>(186,452)</u>
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<b>Total net position - governmental activities</b>	<u><u>\$(1,781,014)</u></u>
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The accompanying notes are an integral part of these financial statements.

East Central Center for Exceptional Children  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE GOVERNMENT FUNDS**  
For the Year Ended June 30, 2019

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Local Tuition	\$1,656,396	\$1,656,396
Other local sources	2,894	2,894
State sources	363,971	363,971
Federal sources	353,960	353,960
Total revenues	2,377,221	2,377,221
<b>EXPENDITURES</b>		
Instruction:		
Preschool	74,266	74,266
Educable mentally	90,796	90,796
Trainable mentally	60,359	60,359
Learning disabled	855,787	855,787
Multiple handicapped	338,409	338,409
Social work	48,399	48,399
Psychological	36,777	36,777
Occupational therapy	75,387	75,387
Educational diagnostics	2,384	2,384
Family educator project	580	580
Vocational work experience	61,102	61,102
Low incidence, inclusion act	174,776	174,776
Speech pathology	337,799	337,799
Administration	143,849	143,849
Operation and maintenance	12,325	12,325
Support Services:		
Business	67,429	67,429
Instructional	20,211	20,211
Capital outlays	-	-
Total expenditures	2,400,635	2,400,635
Excess (deficiency) of revenues over (under) expenditures	(23,414)	(23,414)
Fund balance beginning of year	96,362	96,362
Fund balance end of year	\$72,948	\$72,948

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

East Central Center for Exceptional Children  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
WITH GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2019

**Net change in fund balance - total government funds** \$(23,414)

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

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

Capital outlay	-
Depreciation expense	(20,334)
Excess of Capital outlay over depreciation expense	<u>(20,334)</u>

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

Pension expense	(132,565)
<b>Net change in fund position of government activities</b>	<u><u>\$(176,313)</u></u>

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

East Central Center for Exceptional Children  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2019

**Note 1 Summary of Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The Center's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. East Central Center for Exceptional Children is governed by an advisory board from the contracting school districts which include Carrington, Kensal, Oberon, New Rockford-Sheyenne, Pingree-Buchanan and Fessenden-Bowdon. The Center's significant accounting policies are described below.

**Reporting Entity**

East Central Center for Exceptional Children is the basic level of government which has financial accountability and control over all activities related to the special education with the school districts with which it has contracts. The Center receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Center is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. No component units of the Center have been excluded from this report.

**Basis of Presentation**

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

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

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

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund (if any) is reported by tape.

**Fund Accounting**

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

General Fund - This fund is the general operating fund of East Central Center for Exceptional Children and is always classified as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

**Measurement Focus and Basis of Accounting**

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

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, East Central Center for Exceptional Children considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Unrestricted state aid, federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Only current assets, current liabilities and fund balances are generally included on the balance sheet.

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

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

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to the differences, East Central Center for Exceptional Children's financial statements includes reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Other Accounting Policies**

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

**Receivable** - Due from governmental agencies consists of federal and state aid that has not been received by the end of the fiscal year. No allowance has been established for uncollectible amounts.

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

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

The East Central Center for Exceptional Children's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The board must adopt the final budget on or before August 15. The final budget must be filed with the county auditor by August 25.

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

**Deposits and Investments** - The Center maintains deposits at depository banks that are members of the Federal Reserve System. North Dakota laws require all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentality's,

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

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

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 instrumentality's or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board. The Center's board approves and designates a list of authorized depository institutions.

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

**Capital Assets** - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental column in the government-wide financial statements but are not reported as assets in the fund financial statements. Capital assets are defined by East Central Center for Exceptional Children as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The assets are updated for additions and retirements during the Center's fiscal year. Donated capital assets are recorded at estimated fair market value at the date received. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. East Central Center for Exceptional Children does not have infrastructure-type assets.

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

Building and building improvements	50 years
Equipment	10 years
Office Equipment	5 years

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

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

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

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

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

**Compensated Absences** - The liability for compensated absences in the government-wide statements consists of earned but unused accumulated sick leave. A liability for the amount is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payment and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Teachers do not receive paid vacations but are paid only for the number of days they are required to work each year. Other employees are granted vacation leave in varying amounts. Unused sick leave is reimbursable at a rate of 25% of the accumulated sick days based on current salary upon termination of employment. Reimbursement is provided if the employee has been employed by the Center for at least five full-time equivalent years and has not been dismissed for cause.

Personal days are not reimbursable for any unused portion; therefore, the center has no liability for unused personal days.

**Accrued Liabilities and Long-Term Obligations** - All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. East Central Center for Exceptional Children's governmental fund financials report only those obligations that will be paid from current financial resources.



East Central Center for Exceptional Children  
NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

- Committed
- Assigned
- Unassigned

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

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

**Net Position** - Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on East Central Center for Exceptional Children. External restrictions may be imposed through state or local laws, and grant or contract provisions. All other net position is reported as unrestricted.

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

**Comparative Data** - Comparative data is not included in East Central Center for Exceptional Children's financial statements.

**Note 2 Cash & Cash Equivalents**

The following is a summary of the cash balances at June 30, 2019:

	Balance per Bank Records	In Transit Items	Balance per Center Records
Checking Accounts			
Bank Forward, New Rockford, ND			
General Fund	\$206,195	\$(166,890)	\$39,305
Total checking accounts	<u>\$206,195</u>	<u>\$(166,890)</u>	<u>\$39,305</u>
		<u>Rate</u>	<u>Amount</u>
Certificates of Deposit and Savings Accounts			
Bank Forward, New Rockford, ND			
Savings		.24%	43,295
Total savings account			<u>43,295</u>
Total Cash			<u><u>\$82,600</u></u>
Cash consists of:			
General Fund			<u><u>\$82,600</u></u>

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

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

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the Center's deposits may not be returned or the Center will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2019, the Center's deposits are fully insured or collateralized with securities held by the financial institutions in the Center's name.

Pledges of Securities by Depository - Following is a schedule of the amount of money on deposit in each bank at June 30, 2019 and the amount of securities each bank has pledged as collateral along with insurance coverage for the deposits:

	Amount on Deposit June 30, 2019	Amount of Pledged Securities and F.D.I.C. and N.C.U.S.I.F. Insurance
Bank Forward, New Rockford, ND	\$249,490	\$768,256

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

**Note 3 Capital Assets**

Capital asset activity of East Central Center for Exceptional Children's governmental activities was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental Activities				
Land	\$5,000	-	-	\$5,000
Building, equipment and improvements	297,536	-	-	297,536
Less Accumulated Depreciation				
Building, equipment and improvements	203,940	20,334	-	224,274
Net Capital Assets for				
Governmental Activities	<u>\$98,596</u>	<u>20,334</u>	<u>-</u>	<u>\$78,262</u>

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

Instructional Support	<u>\$20,334</u>
Total	<u>\$20,334</u>

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note 4 Payables**

Benefits payable consists of accrual for benefits for services received prior to June 30, 2019. The balance was \$9,453 at June 30, 2019. Also, included in benefits payable are insurances payable for \$25,025. Accounts payable at June 30, 2019 for unpaid invoices is \$47,466.

**Note 5 North Dakota Teachers' Fund for Retirement**

**Summary of Significant Accounting Policies**

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

**General Information about the Pension Plan**

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

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

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

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

East Central Center for Exceptional Children  
NOTES TO FINANCIAL STATEMENTS (Continued)

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

*Pension Benefits*

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

*Tier 2*

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

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

***Death and Disability Benefits***

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

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

***Member and Employer Contributions***

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

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At 06/30/2019 the Employer reported a liability of \$1,560,702 for its proportionate share of the net pension liability. The net pension liability was measured as of 07/01/2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At 07/01/2018, the Employer's proportion was 0.11709433 percent which was a decrease of 0.00139858 from its proportion measured as of 06/30/2017.

For the year ended 06/30/2019, the Employer recognized pension expense of \$115,444. At 06/30/2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 4,236	\$42,447
Changes of assumptions	85,976	-
Net difference between projected and actual earnings on pension plan investments	-	5,396
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,078	97,413
Employer contributions subsequent to the measurement date	<u>101,268</u>	<u>-</u>
Total	<u>\$195,558</u>	<u>\$145,256</u>

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

\$101,268 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 06/30/2020.

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

**Year ended June 30:**

2019	\$ 28,570
2020	6,753
2021	(31,521)
2022	(37,730)
2023	(9,833)
Thereafter	(7,205)

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

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

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

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



East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

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

- \*Investment return assumption lowered from 8% to 7.75%.
- \*Inflation assumption lowered from 3% to 2.75%.
- \*Total salary scale rates lowered by 0.25% due to lower inflation.
- \*Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- \*Rates of turnover and retirement were changed to better reflect anticipated future experience.
- \*Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.7%
Global Fixed Income	23%	1.5%
Global Real Assets	18%	5.1%
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, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2018, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2018. 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, 2018.

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note 5 North Dakota Teachers' Fund for Retirement** (Continued)

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

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Employer's proportionate share of the net pension liability	\$2,107,399	\$1,560,702	\$1,106,019

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at [www.nd.gov/no/sib/publications/cafr/default.htm](http://www.nd.gov/no/sib/publications/cafr/default.htm).

**Note 6 North Dakota Public Retirement System**

**Summary of Significant Accounting Policies**

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

**General Information about the Pension Plan**

*North Dakota Public Employees Retirement System (Main System)*

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

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

**Note 6 North Dakota Public Retirement System**(Continued)

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, 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 minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

***Death and Disability Benefits***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 6 North Dakota Public Retirement System**(Continued)

***Refunds of Member Account Balance***

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

***Member and Employer Contributions***

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

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

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

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

At 06/30/2019, the Employer reported a liability of \$774,984 for its proportionate share of the net pension liability. The net pension liability was measured as of 06/30/2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At 06/01/2018, the Employer's proportion was 0.045922 percent which was an increase of 0.001649 from its proportion measured as of 06/30/2017.

For the year ended 06/30/2019, the Employer recognized pension expense of \$153,504. At 06/30/2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 6 North Dakota Public Retirement System**(Continued)

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected And actual experience	\$2,051	\$26,366
Changes of assumptions	279,753	11,061
Net difference between projected and actual earnings on pension plan investments	-	3,770
Changes in proportion and differences between employer contributions and proportionate share of contributions	72,000	(1)
Employer contributions subsequent to the measurement date	<u>40,552</u>	<u>-</u>
Total	<u>\$ 394,356</u>	<u>\$41,196</u>

\$40,552 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 06/30/2020.

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

**Year ended June 30:**

2019	\$ 105,419
2020	94,900
2021	72,034
2022	37,101
2023	3,154
Thereafter	-

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 6 North Dakota Public Retirement System**(Continued)

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

Inflation	2.50%		
Salary increases	Service at Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age*		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%

\*Age-based salary increase rates apply for employees with three or more years of service.

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

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

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 6 North Dakota Public Retirement System**(Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62% and the resulting Single Discount Rate is 6.32%.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.*** The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note 6 North Dakota Public Retirement System**(Continued)

	<b>1% Decrease (5.32%)</b>	<b>Current Discount Rate (6.32%)</b>	<b>1% Increase (7.32%)</b>
Employer's proportionate share of the net pension liability	\$1,053,059	\$774,984	\$542,939

*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 7 Risk Management**

East Central Center for Exceptional Children is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center pays an annual premium to Farmers Union Insurance for its general liability, auto, and inland marine insurance coverage. The coverage is limited to losses of one million dollars per occurrence.

East Central Center for Exceptional Children also participates in the North Dakota Fire and Tornado Fund. The Center 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 Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the Center with blanket fidelity bond coverage in the amount of \$602,000 for its main employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Center participates in the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**Note 8 Legal Compliance – Budgets**

The Board has not amended the school district budget. General Fund expenditures were more than the budget by \$334,241 and General Fund revenues were more than budgeted by \$330,254.



East Central Center for Exceptional Children  
**NOTES TO FINANCIAL STATEMENTS** (Continued)

**Note 9 Federal and State Grants**

In the normal course of operations, East Central Center for Exceptional Children receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of granting authorities, the purpose of which is to ensure compliance with conditions precedent to granting the funds. Management believes it has complied with all applicable grant provisions. In the opinion of management, any liability for reimbursement which may arise as a result of these audits is not believed to be material to the overall financial position of the Center as of June 30, 2019.

East Central Center for Exceptional Children  
**BUDGET COMPARISON – GENERAL FUND**  
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local tuition	\$1,612,892	\$1,612,892	\$1,656,396	\$43,504
Other local sources	3,015	3,015	2,894	(121)
State sources	77,000	77,000	363,971	286,971
Federal sources	354,060	354,060	353,960	(100)
Total revenues	\$2,046,967	\$2,046,967	\$2,377,221	\$330,254
<b>Expenditures</b>				
Instruction:				
Preschool	74,601	74,601	74,266	335
Educable mentally	86,041	86,041	90,796	(4,755)
Trainable mentally	29,433	29,433	60,359	(30,926)
Learning disabled	824,203	824,203	855,787	(31,584)
Multiple handicapped	70,000	70,000	338,409	(268,409)
Social Work	42,209	42,209	48,399	(6,190)
Psychological	36,405	36,405	36,777	(372)
Occupational therapy	80,000	80,000	75,387	4,613
Educational diagnostics	2,600	2,600	2,384	216
Family educator project	1,300	1,300	580	720
Vocational work experience	64,877	64,877	61,102	3,775
Low incidence, inclusion act	176,516	176,516	174,776	1,740
Speech pathology	319,676	319,676	337,799	(18,123)
Administration	152,836	152,836	143,849	8,987
Operations and maintenance	11,541	11,541	12,325	(784)
Support Services:				
Business	69,131	69,131	67,429	1,702
Instructional	25,025	25,025	20,211	4,814
Total expenditure	\$2,066,394	\$2,066,394	\$2,400,635	\$(334,241)
Excess (deficiency) of revenues over expenditures	(19,427)	(19,427)	(23,414)	(3,987)
Fund balance beginning of year	96,362	96,362	96,362	-
Fund balance end of year	\$76,935	\$76,935	\$72,948	\$(3,987)

See accompanying notes to the basic financial statements.

East Central Center for Exceptional Children  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**  
June 30, 2019

**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 fiscal year-end and become a part of the unappropriated balance at year end.

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

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10.

**Note 2 Legal Compliance - Budgets**

The governing board did not have any amendments to the Center's budget for the year ending June 30, 2019. General Fund revenues were \$330,254 more than budgeted. General Fund expenditures were \$334,241 more than budgeted. No remedial action is anticipated by the Center regarding the excess expenditures.

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

	2015
1. Employer's proportion of the net pension liability (asset)	0.129855%
2. Employer's proportionate share of the net pension liability (asset)	\$1,360,650
3. Employer's covered-employee payroll	\$753,226
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	66.6%

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

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

	2015
Statutorily required contribution	\$102,484
Contributions in relation to the statutorily required contribution	(\$102,484)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$803,793
Contributions as a percentage of covered-employee payroll	14.56%

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

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

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

	2016
1. Employer's proportion of the net pension liability (asset)	0.130676%
2. Employer's proportionate share of the net pension liability (asset)	\$1,709,053
3. Employer's covered-employee payroll	\$803,793
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	212.62%
5. Plan fiduciary net position as a percentage of the total pension liability	62.1%

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

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

	2016
Statutorily required contribution	\$98,554
Contributions in relation to the statutorily required contribution	(\$98,554)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$772,971
Contributions as a percentage of covered-employee payroll	12.75%

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

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

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

	2017
1. Employer's proportion of the net pension liability (asset)	0.11896896%
2. Employer's proportionate share of the net pension liability (asset)	\$1,742,965
3. Employer's covered-employee payroll	\$772,971
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.48%
5. Plan fiduciary net position as a percentage of the total pension liability	59.2%

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

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

	2017
Statutorily required contribution	\$101,974
Contributions in relation to the statutorily required contribution	(\$101,974)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$799,793
Contributions as a percentage of covered-employee payroll	12.75%

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

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

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

	2018
1. Employer's proportion of the net pension liability (asset)	0.11849291%
2. Employer's proportionate share of the net pension liability (asset)	\$1,627,531
3. Employer's covered-employee payroll	\$799,793
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.49%
5. Plan fiduciary net position as a percentage of the total pension liability	63.2%

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

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

	2018
Statutorily required contribution	\$101,492
Contributions in relation to the statutorily required contribution	(\$101,492)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$796,018
Contributions as a percentage of covered-employee payroll	12.75%

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

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

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

	2019
1. Employer's proportion of the net pension liability (asset)	0.11709433%
2. Employer's proportionate share of the net pension liability (asset)	\$1,560,702
3. Employer's covered-employee payroll	\$796,018
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	196.06%
5. Plan fiduciary net position as a percentage of the total pension liability	65.5%

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

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

	2019
Statutorily required contribution	\$101,268
Contributions in relation to the statutorily required contribution	(\$101,268)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$794,262
Contributions as a percentage of covered-employee payroll	12.75%

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

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



East Central Center for Exceptional Children  
**Notes to Required Supplementary Information**  
For the Year Ended June 30, 2019

**Changes of assumptions.** Amounts reported in 2016 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

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

	2015
Employer's proportion of the net pension liability (asset)	0.025213%
Employer's proportionate share of the net pension liability (asset)	\$160,032
Employer's covered-employee payroll	\$212,385
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

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

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

	2015
Statutorily required contribution	\$15,122
Contributions in relation to the statutorily required contribution	(\$15,122)
Contribution deficiency (excess)	\$0.00
Employer's covered-employee payroll	\$212,385
Contributions as a percentage of covered-employee payroll	7.12%

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

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

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

	2016
Employer's proportion of the net pension liability (asset)	0.33320%
Employer's proportionate share of the net pension liability (asset)	\$226,570
Employer's covered-employee payroll	\$296,843
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

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

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

	2016
Statutorily required contribution	\$22,547
Contributions in relation to the statutorily required contribution	(\$22,547)
Contribution deficiency (excess)	\$526
Employer's covered-employee payroll	\$296,843
Contributions as a percentage of covered-employee payroll	7.60%

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

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

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

	2017
Employer's proportion of the net pension liability (asset)	0.040767%
Employer's proportionate share of the net pension liability (asset)	\$397,314
Employer's covered-employee payroll	\$410,834
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%
Plan fiduciary net position as a percentage of the total pension liability	96.71%

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

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

	2017
Statutorily required contribution	\$29,744
Contributions in relation to the statutorily required contribution	(\$26,196)
Contribution deficiency (excess)	\$3,548
Employer's covered-employee payroll	\$410,834
Contributions as a percentage of covered-employee payroll	6.38%

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

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

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

	2018
Employer's proportion of the net pension liability (asset)	0.044273%
Employer's proportionate share of the net pension liability (asset)	\$711,612
Employer's covered-employee payroll	\$451,962
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%
Plan fiduciary net position as a percentage of the total pension liability	61.98%

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

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

	2018
Statutorily required contribution	\$32,772
Contributions in relation to the statutorily required contribution	\$28,738
Contribution deficiency (excess)	\$4,034
Employer's covered-employee payroll	\$451,962
Contributions as a percentage of covered-employee payroll	6.36%

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

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

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

	2019
Employer's proportion of the net pension liability (asset)	0.045922%
Employer's proportionate share of the net pension liability (asset)	\$774,984
Employer's covered-employee payroll	\$471,766
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.27%
Plan fiduciary net position as a percentage of the total pension liability	63.53%

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

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

	2019
Statutorily required contribution	\$34,747
Contributions in relation to the statutorily required contribution	\$33,961
Contribution deficiency (excess)	\$786
Employer's covered-employee payroll	\$471,766
Contributions as a percentage of covered-employee payroll	7.20%

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

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

East Central Center for Exceptional Children  
**Notes to Required Supplementary Information**  
For the Year Ended June 30, 2019

**Changes of Assumptions.** Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



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

To the Chairman and Board  
East Central Center for Exceptional Children  
New Rockford, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **East Central Center for Exceptional Children**, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise **East Central Center for Exceptional Children's** basic financial statements, and have issued our report thereon dated July 19, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **East Central Center for Exceptional Children'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 **East Central Center for Exceptional Children's** internal control. Accordingly, we do not express an opinion on the effectiveness of **East Central Center for Exceptional Children's** internal control.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

**Finding 2019-001 Significant Deficiency-Lack of Segregation:**

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

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

**Cause:** East Central Center for Exceptional Children has one person responsible for most accounting functions making complete segregation of duties difficult.

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

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

**Client Response:** No response is considered necessary.

**Finding 2019-002 Significant Deficiency- Financial Statement Preparation**

**Condition:** Dempsey Accounting & Tax Services P.C. assists the Center's management in preparing financial statements that are presented, including note disclosures in accordance with generally accepted accounting principles.

**Criteria:** As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles. This means that the school district must maintain knowledge of current accounting principles and required financial statement disclosures.

**Cause:** The Center Board feels that it is more cost effective to ask an independent accountant to prepare the complete financial statements and disclosures, rather than to invest in ongoing specialized training that would necessary.

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

**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. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

**Client Response:** It is not cost effective for the school district to prepare its own financial statements

### **Compliance and Other Matters**

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

### **School District's Response to Findings**

East Central Center for Exceptional Children's Board realizes it is extremely hard to have the ultimate of internal controls and segregation of duties with a staff of one person and believes it is not economically feasible to have employees hired to provide the necessary level of segregation of duties. They feel they have mitigated the risk that the financial statements may be misstated by providing policies and procedures for the accounting function and strong board oversight.

The Center Board is aware of these conditions. The Center Board will continue to request the Dempsey Accounting & Tax Services P.C. assist with preparation of financial statements; however the Board will continue to instruct the Center administration to provide all requested schedules.

East Central Center for Exceptional Children's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.  
Jamestown, North Dakota  
July 19, 2019



# DEMPSEY ACCOUNTING AND TAX SERVICES P.C.

*Trusted Accounting Professionals*

**Beth A. Dempsey, CPA**

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

July 19, 2019

To the Chairman and Board of Directors  
East Central Center for Exceptional Children  
New Rockford, North Dakota

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **East Central Center for Exceptional Children** for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and if applicable, Government Auditing Standards), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 18, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **East Central Center for Exceptional Children** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2018-2019 year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatement*

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

*Disagreements with Management*

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

*Management Representations*

We have requested certain representation from management that are included in the management representation letter dated July 19, 2019.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

*Other information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Board and management of East Central Center for Exceptional Children and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter which upon acceptance by the governing board, is a matter of public record.

Very truly yours,

*Dempsey Accounting and Tax Services P.C.*

Dempsey Accounting and Tax Services P.C.