NORTH DAKOTA STATE ELECTRICAL BOARD
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota State Electrical Board
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the North Dakota State Electrical Board as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the North Dakota State Electrical Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the North Dakota State Electrical Board as of June 30, 2019 and 2018, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 10 to the financial statements, North Dakota State Electrical Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employer's share of net pension liability, schedule of employer's share of net OPEB liability, schedule of employer contributions – pension, schedule of employer contributions – OPEB and notes to required supplemental information, as listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Dakota State Electrical Board's basic financial statements. The detailed statements of revenues and expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements. The detailed statements of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2020 on our consideration of North Dakota State Electrical Board'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 solely 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 the effectiveness of North Dakota State Electrical Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Electrical Board's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

March 3, 2020

As management of the North Dakota State Electrical Board, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2019 and 2018.

Financial Highlights

- The net position of the Board as of June 30, 2019 and 2018 was $10,381,653 and $9,808,389, respectively.

- The Board's total net position increased for the years ended June 30, 2019 and 2018 by $573,264 and $320,676, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the North Dakota State Electrical Board's basic financial statements. The Board's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide-financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Board that are principally supported by inspection fee revenue.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Board are governmental funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spend-able resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand in the long-term impact of the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Pursuant to NDCC 43-09, the Board is charged with the responsibility to examine applicants and issue licenses to those having the necessary qualifications and knowledge in the laws of electricity and electrical codes. The board has jurisdiction over all electrical installations. The Board's primary source of revenue is generated through electrical inspections and license fees.

Notes to the financial statements and other information - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The following table presents condensed financial information on the Board's Net Position as of June 30, 2019, 2018 and 2017.

Net Position as of June 30, 2019, 2018 and 2017

	Governmental Activities 2019	Governmental Activities 2018	Governmental Activities 2017
Current and other assets	$ 12,447,478	$ 11,546,951	$ 11,165,812
Capital assets	162,576	188,501	119,743
Total assets	12,610,054	11,735,452	11,285,555
Deferred outflow - pension	1,030,077	1,195,114	665,106
Deferred outflow - OPEB	31,500	29,188	-
Total deferred outflows of resources	1,061,577	1,224,302	665,106
Current liabilities	525,295	499,863	616,575
Long-term liabilities	2,484,345	2,436,485	1,655,417
Total liabilities	3,009,640	2,936,348	2,271,992
Deferred inflow - pension	271,031	207,588	94,548
Deferred inflow - OPEB	9,307	7,429	-
Total deferred inflows of resources	280,338	215,017	94,548
Net position:			
Net investment in capital assets	162,576	188,501	119,743
Unrestricted	10,219,077	9,619,888	9,464,378
Total net position	$ 10,381,653	$ 9,808,389	$ 9,584,121

The following table presents condensed financial information on the Board's Changes in Net Position for the fiscal years ended June 30, 2019, 2018, and 2017.

Changes in Net Position
For the Fiscal Years Ended June 30, 2019, 2018 and 2017

	Governmental Activities 2019	Governmental Activities 2018	Governmental Activities 2017
Revenues:			
General revenues:			
Interest on investments	$ 46,690	$ 26,189	$ 19,653
Gain (loss) on sale of capital assets	400	-	-
Program revenues:			
Inspection fees	4,166,726	3,700,984	3,946,267
Other income	321,053	305,437	388,740
Total revenues	4,534,869	4,032,610	4,354,660
Expenses:			
Governmental Activities			
Regulatory program	3,961,605	3,711,934	4,278,718
Total expenses	3,961,605	3,711,934	4,278,718
Change in net position	573,264	320,676	75,942
Net position, beginning of year, as previously stated	9,808,389	9,584,121	9,508,179
Prior period adjustment	-	(96,408)	-
Net position, beginning of year, restated	9,808,389	9,487,713	9,508,179
Net position, end of year	$ 10,381,653	$ 9,808,389	$ 9,584,121

Inspections fees totaled $4,166,726, $3,700,984 and $3,946,267 for the years ended June 30, 2019, 2018 and 2017, respectively. The increase in inspection fees is due to an increase in construction and activity in the oil fields.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets and deferred outflows exceeded liabilities and deferred inflows for the years ended June 30, 2019 and 2018 by $10,381,653 and $9,808,389, respectively.

Cash and investments represent by far the largest portion of the Board's net position. The Board uses these assets to balance the demand for services that are required to maintain a steady and consistent electrical licensing and inspection department.

Financial Analysis of the Government's Funds

As noted earlier, the Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements.

Capital Asset and Debt Administration

Capital Assets – The North Dakota State Electrical Board's investment in capital assets, net of related debt for its governmental type activities as of June 30, 2019 and 2018 amount to $162,576 and $188,501 (net of accumulated depreciation). This investment in capital assets includes intangible asset for software, furniture and equipment, and leasehold improvements.

Capital Assets (net of depreciation)

	Primary Government Governmental Activities		
	2019	2018	2017
Construction in progress	$ -	$ 95,100	$ 13,000
Leasehold improvements	71,612	78,833	86,054
Furniture and equipment	16,997	14,568	20,689
Intangible asset - software	73,967	-	-
	$ 162,576	$ 188,501	$ 119,743

Economic Factors

The increase in electrical work in prior years is reflected toward the general increase of North Dakota's economy, particularly in the oil industry. The consumer demand for electrical work seems to increase and decrease from year-to-year due to the construction and oil industry and other factors that affect various aspects of North Dakota's economy

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to North Dakota State Electrical Board, P.O. Box 7335, Bismarck, ND 58507-7335.

NORTH DAKOTA STATE ELECTRICAL BOARD
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,090,695	$ 7,179,166
Investments	4,320,000	4,320,000
Accounts receivable	27,215	42,349
Interest receivable	9,568	5,436
Total current assets	12,447,478	11,546,951
Capital assets:		
Construction in progress	-	95,100
Depreciable assets, net	162,576	93,401
Total capital assets	162,576	188,501
Total assets	12,610,054	11,735,452
DEFERRED OUTFLOW OF RESOURCES		
Cost sharing defined benefit - pension	1,030,077	1,195,114
Cost sharing defined benefit - OPEB	31,500	29,188
Total deferred outflow of resources	1,061,577	1,224,302
LIABILITIES		
Current liabilities:		
Accounts payable	103,291	96,604
Payroll liabilities	97,640	85,868
Unearned revenue	207,799	209,587
Compensated absences due within one year	116,565	107,804
Total current liabilities	525,295	499,863
Non-current liabilities:		
Compensated absences due in more than one year	64,253	53,538
Net pension liability	2,308,109	2,267,265
Net OPEB liability	111,983	115,682
Total non-current liabilities	2,484,345	2,436,485
Total liabilities	3,009,640	2,936,348
DEFERRED INFLOW OF RESOURCES		
Cost sharing defined benefit - pension	271,031	207,588
Cost sharing defined benefit - OPEB	9,307	7,429
Total deferred inflow of resources	280,338	215,017
NET POSITION		
Net investment in capital assets	162,576	188,501
Unrestricted	10,219,077	9,619,888
Total net position	$10,381,653	$ 9,808,389

See Notes to the Financial Statements

NORTH DAKOTA STATE ELECTRICAL BOARD
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2019

Functions/Programs Governmental Activities:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue
Regulatory program	$3,961,605	$4,487,779	$ 526,174
General revenues:			
Unrestricted investment earnings			46,690
Gain (loss) on disposal of asset			400
Total general revenues			47,090
Total change in net position			573,264
Net position, beginning of year			9,808,389
Net position, end of year			$ 10,381,653

2018

Functions/Programs Governmental Activities:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue
Regulatory program	$3,711,934	$4,006,421	$ 294,487
General revenues:			
Unrestricted investment earnings			26,189
Total change in net position			320,676
Net position, beginning of year, as previously stated			9,584,121
GASB 75 adjustment (see note 10)			(96,408)
Net position, beginning of year, restated			9,487,713
Net position, end of year			$9,808,389

NORTH DAKOTA STATE ELECTRICAL BOARD
BALANCE SHEETS - GOVERNMENTAL FUND / GENERAL FUND
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 8,090,695	$ 7,179,166
Investments	4,320,000	4,320,000
Accounts receivable	27,215	42,349
Interest receivable	9,568	5,436
Total assets	$ 12,447,478	$ 11,546,951
LIABILITIES		
Accounts payable	$ 103,293	$ 96,606
Payroll liabilities	97,640	85,868
Unearned revenue	207,799	209,587
Total liabilities	408,732	392,061
FUND BALANCES		
Unassigned	12,038,746	11,154,890
Total fund balance	12,038,746	11,154,890
Total liabilities and fund balance	$ 12,447,478	$ 11,546,951

Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2019 and 2018

	2019	2018
Total fund balance	$ 12,038,746	$ 11,154,890
Capital assets used in governmental activities	162,576	188,501
Cost sharing defined benefit - pension	1,030,077	1,195,114
Cost sharing defined benefit - OPEB	31,500	29,188
Liability for compensated absences	(180,816)	(161,340)
Liability for net pension	(2,308,109)	(2,267,265)
Liability for net OPEB	(111,983)	(115,682)
Cost sharing defined benefit - pension	(271,031)	(207,588)
Cost sharing defined benefit - OPEB	(9,307)	(7,429)
Net position of governmental activities	$ 10,381,653	$ 9,808,389

NORTH DAKOTA STATE ELECTRICAL BOARD
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND / GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Revenues:		
Inspection fees	$ 4,166,726	$ 3,700,984
Master examinations	7,900	8,800
Master license	83,725	74,050
Journeyman examinations	12,875	9,800
Journeyman license	89,850	84,306
Class B license	893	867
Apprentice registrations	28,351	25,848
Reinstatements	20,740	19,635
Sale of code books	-	12,470
Administration and late fees	43,505	35,073
Continuing education and seminars	29,795	30,650
Interest income	46,690	26,189
Miscellaneous	3,419	3,939
Total revenues	4,534,469	4,032,611
Expenditures:		
Salaries and benefits	2,168,148	2,044,015
Operating expenses	1,482,465	1,415,121
Equipment	-	82,100
Total expenditures	3,650,613	3,541,236
Revenues over expenditures	883,856	491,375
Fund balance - July 1	11,154,890	10,663,515
Fund balance - June 30	$ 12,038,746	$ 11,154,890

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Net changes in fund balance	$ 883,856	$ 491,375
Depreciation expense	(34,247)	(13,342)
Capital outlay	8,322	82,100
Increase (decrease) in deferred outflows	(162,725)	539,486
Decrease (increase) in compensated absences liability	(19,476)	4,175
Decrease (increase) in net pension liability	(40,844)	(663,087)
Decrease (increase) in net OPEB liability	3,699	438
Decrease (increase) in deferred inflows	(65,321)	(120,469)
Change in net position of governmental activities	$ 573,264	$ 320,676

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

For financial reporting purposes, the North Dakota State Electrical Board includes all funds, programs, and activities over which it is financially accountable. The North Dakota State Electrical Board does not have any component units as defined by the Governmental Accounting Standards Board, and is not a component unit of another reporting entity.

The North Dakota State Electrical Board was created in 1917 by North Dakota Statute (NDCC 43-09). The Board is charged with the responsibility to examine applicants and issue licenses to those having the necessary qualifications and knowledge in the laws of electricity and electrical codes. The Board has jurisdiction over all electrical installations. Electrical inspectors authorized by the Board may condemn installations hazardous to life and property and order electric service to be discontinued.

Government-Wide and Fund Financial Statements

The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the Board. The Board reports all activities as governmental activities that are financed through fees and licenses. The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. The net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net position consists of funds received that are restricted for a specific purpose.

Unrestricted net position consists of net position which does not meet the definition of the preceding category. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include inspection and other fees and license renewals.

Separate fund financial statements are provided for the North Dakota State Electrical Board governmental funds.

Fund Accounting Structure

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Board has one fund, the general fund. The general fund is used to account for the collection of fees, license renewals and transactions relating to the general operations of providing qualified electricians to install and repair electrical services to the citizens of the state.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Directors – the Board's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Board's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board has authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the fund.

When both restricted and unrestricted resources are available for use, the Board's preference is to first use restricted resources, then unrestricted resources–committed, assigned, and unassigned – in order as needed.

The Board has set a General Fund minimum balance target at twenty four months of operating expenditures.

Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when collected and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Inspection fee revenues are recognized when the contractor sends in the final certificate.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenues that are susceptible to accrual include inspection fees and other fees. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts held in checking and savings accounts.

Investments

Investments are carried at fair value and consist entirely of certificates of deposit.

Accounts Receivables

Accounts receivable consist of inspections fees to be collected for jobs completed as of year-end. No allowance for doubtful accounts is recorded for the years ended June 30, 2019 and 2018.

Capital Assets

Capital assets, which include intangible assets - software, furniture and equipment, and leasehold improvements are valued at historical cost or at estimated historical cost if actual historical cost is not available.

Capital assets in governmental funds are recorded as expenditures in the funds used to acquire them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense are reported in the applicable governmental activities column in the government-wide financial statements.

Description	Estimated Useful Life
Intangible asset – software	3 years
Furniture and equipment	5-7 years
Leasehold improvements	15 years

Costs incurred for repairs and maintenance are expensed as incurred, unless they significantly extend the useful life of an asset, then these costs are capitalized.

Unearned Revenue

Unearned revenue represents unearned inspection revenue of $84,804 and $83,252 and unearned license revenue of $122,995 and $126,335 at June 30, 2019 and 2018, respectively. The unearned inspection revenues are the result of deposits from electricians held by the State Electrical Board for the future issuance of inspection certificates. The unearned license revenues are the result of the license period overlapping two fiscal years. The portion applicable to the next fiscal year is unearned license revenue in the current fiscal year.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Board has two items that qualifies for reporting in this category named *cost sharing defined benefit – pension* and *cost sharing defined benefit – OPEB*, which represents actuarial differences within NDPERS pension and OPEB plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify for reporting in this category. These items, *cost sharing defined benefit – pension* and *cost sharing defined benefit – OPEB*, represents actuarial differences within NDPERS pension and OPEB plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the Board is liable for ten percent of the employee's accumulated unused sick leave.

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 Employee 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.

Other Post Employment Benefits (OPEB)

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Principle

The Board implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during the year ended June 30, 2018. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to state and local government employers. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NOTE 2 DEPOSITS

Custodial Credit Risk – Deposits

Custodial credit risk is risk associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in the possession of outside parties. The Board does not have a formal deposit policy for custodial credit risk for deposits.

North Dakota State Electrical Board maintains interest bearing cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to $250,000 per financial institution. At June 30, 2019 and 2018, the Board had $8,127,730 and $7,260,605, respectively, of deposits that were exposed to custodial credit risk. These deposits were backed by the full faith and credit of the State of North Dakota.

State statute requires the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

NOTE 3 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	7/1/18	Additions	Deletions	6/30/19
Capital assets not being depreciated:				
Construction in progress	$ 95,100	$ -	$ (95,100)	$ -
Capital assets being depreciated:				
Intangible asset - software	11,000	95,100	-	106,100
Furniture and equipment	61,582	8,322	(8,319)	61,585
Leasehold improvements	108,319	-	-	108,319
	180,901	103,422	(8,319)	276,004
Less accumulated depreciation for:				
Intangible asset - software	11,000	21,133	-	32,133
Furniture and equipment	47,014	5,893	8,319	44,588
Leasehold improvements	29,486	7,221	-	36,707
	87,500	34,247	8,319	113,428
Net investment in capital assets	$ 188,501	$ 69,175	$ (95,100)	$ 162,576

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	7/1/17	Additions	Deletions	6/30/18
Capital assets not being depreciated:				
Construction in progress	$ 13,000	$ 82,100	$ -	$ 95,100
Capital assets being depreciated:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	61,582	-	-	61,582
Leasehold improvements	108,319	-	-	108,319
	180,901	-	-	180,901
Less accumulated depreciation for:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	40,893	6,121	-	47,014
Leasehold improvements	22,265	7,221		29,486
	74,158	13,342	-	87,500
Net investment in capital assets	$ 119,743	$ 68,758	$ -	$ 188,501

NOTE 4 ACCRUED COMPENSATED ABSENCES

A summary of changes in accrued compensated absences for the year ended June 30, 2019 is as follows:

	Balance 7/1/18	Additions	Reductions	Balance 06/30/19	Due Within One Year
Compensated absences	$ 161,342	$127,278	$ (107,802)	$ 180,818	$116,565

A summary of changes in accrued compensated absences for the year ended June 30, 2018 is as follows:

	Balance 7/1/17	Additions	Reductions	Balance 06/30/18	Due Within One Year
Compensated absences	$ 165,517	$118,150	$ (122,325)	$ 161,342	$107,804

NOTE 5 PENSION PLAN

North Dakota Public Employees Retirement System (Main Plan)

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

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

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 provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. 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.

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 June 30, 2019 and 2018, the Employer reported a liability of $2,308,109 and $2,267,265 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the Employer's proportion was 0.1367680% percent, which was a decrease of 0.004290% from its proportion measured as of June 30, 2018. At June 30, 2018, the Employer's proportion was 0.1410580% percent, which was a decrease of 0.023541% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Employer recognized pension expense of $376,779. At June 30, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,110	$ (78,526)
Changes of assumptions	833,179	(32,944)
Net difference between projected and actual earnings on pension plan investments	-	(11,229)
Changes in proportion and differences between employer contributions and proportionate share of contributions	83,333	(148,332)
Employer contributions subsequent to the measurement date	107,455	-
Total	$ 1,030,077	$ (271,031)

$107,455 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 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 ending June 30:	
2020	$ 233,569
2021	202,347
2022	141,721
2023	71,217
2024	2,737

For the year ended June 30, 2018, the Employer recognized pension expense of $347,836. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,476	$ (11,047)
Changes of assumptions	929,732	(51,137)
Net difference between projected and actual earnings on pension plan investments	30,493	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	119,830	(145,404)
Employer contributions subsequent to the measurement date	101,583	-
Total	$ 1,195,114	$ (207,588)

$101,583 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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

Year ending June 30:	
2019	$ 202,298
2020	244,138
2021	211,951
2022	150,214
2023	77,342

Actuarial Assumptions

The total pension liability in the July 1, 2018 and 2017 actuarial valuations were determined using the following assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary increases 7/1/18 Valuation	Service At Beginning of Year	State Employee	Non-State Employee
	0	15.00%	15.00%
	1	10.00%	10.00%
	2	8.00%	8.00%

	Age	State Employee	Non-State Employee
	Under 30	10.00%	10.00%
	30-39	7.50%	7.50%
	40-49	6.75%	6.75%
	50-59	6.50%	6.50%
	60+	5.25%	5.25%

Salary increases 7/1/17 Valuation	Service At Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age	
	Under 36	8.00%
	36-40	7.50%
	41-49	6.00%
	50+	5.00%

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:

	7/1/2018 Valuation		7/1/2017 Valuation	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.50%	31%	6.05%
International Equity	21%	6.71%	21%	6.70%
Private Equity	7%	10.20%	5%	10.20%
Domestic Fixed Income	23%	1.45%	17%	1.43%
International Fixed Income	0%	0.00%	5%	-0.45%
Global Real Assets	19%	5.11%	20%	5.16%
Cash Equivalents	0%	0.00%	1%	0.00%

Discount Rate

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

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

For the purpose of the July 1, 2018 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 2019 schedule 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:

June 30, 2019

	1% Decrease 5.32%	Current Discount Rate 6.32%	1% Increase 7.32%
Employer's proportionate share of the net pension liability	$ 3,136,291	$ 2,308,109	$ 1,617,018

The following 2018 schedule presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

June 30, 2018

	1% Decrease 5.44%	Current Discount Rate 6.44%	1% Increase 7.44%
Employer's proportionate share of the net pension liability	$ 3,077,882	$ 2,267,265	$ 1,592,866

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

NOTE 6 NORTH DAKOTA DEFINED CONTRIBUTION RETIREMENT PLAN

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota Century Code. The administrative costs of the Defined Contribution plan are funded by forfeitures of non-vested employee contributions and administrative fees charged to individual participants. The Defined Contribution plan covers all employees who elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all employees hired on or after October 1, 2014 through July 31, 2017.

Death and disability benefits are set by statute. Upon the death of a participating employee or former participating employee, the vested balance of that deceased participant is available to the participant's designated beneficiary(ies). An employee who becomes totally and permanently disabled while employed by the Agency is eligible to receive a distribution of the vested balance. To qualify under this section, the employee must meet the criteria established by the plan for being totally disabled.

Benefits are set by statute. Employees are entitled to vested balance. A participating employee is immediately 100% vested in the employee's contributions. A participating employee vests in the employer contributions made on the employee's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Employees may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions are set by state stature and are a percentage of salaries and wages. Employee contributions are 7% and employer contributions are established at 7.12%. The Board paid for 4% of the employee contribution percentage during the fiscal years ended June 30, 2019 and 2018. Employer required contributions totaled $10,959 and $10,737 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 OTHER POST EMPLOYMENT BENEFITS

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

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

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

OPEB Benefits

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

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

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

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

At June 30, 2019 and 2018, the Employer reported an OPEB liability of $111,983 and $115,682 for its proportionate share of the net OPEB liability, respectively. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Employer's proportion was 0.142188%, which was a decrease of 0.004058% from its proportion measured as of June 30, 2018. At June 30, 2018, the Employer's proportion was 0.146246%.

For the year ended June 30, 2019, the Employer recognized OPEB expense of $13,108. At June 30, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,353	$ (2,317)
Changes of assumptions	9,187	-
Net difference between projected and actual earnings on OPEB plan investments	-	(2,409)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(4,581)
Employer contributions subsequent to the measurement date	18,960	-
Total	$ 31,500	$ (9,307)

$18,960 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

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

Year ending June 30:	
2020	$ 207
2021	207
2022	207
2023	1,270
2024	1,075
Thereafter	267

For the year ended June 30, 2018, the Employer recognized OPEB expense of $13,908. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (2,824)
Changes of assumptions	11,204	-
Net difference between projected and actual earnings on pension plan investments	-	(4,374)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(231)
Employer contributions subsequent to the measurement date	17,984	-
Total	$ 29,188	$ (7,429)

$17,984 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

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

Year ending June 30:	
2019	$ 183
2020	183
2021	183
2022	183
2023	1,276
Thereafter	1,767

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 and 2017 are summarized in the following table:

	7/1/2018 Valuation		7/1/2017 Valuation	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%	37%	5.80%
Small Cap Domestic Equities	9%	14.42%	9%	7.05%
International Equities	14%	8.83%	14%	6.20%
Core-Plus Fixed Income	40%	0.10%	40%	1.56%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following present the Employer's proportionate share of the net OPEB liability calculated as of June 30, 2019 and 2018 using the discount rate of 7.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

June 30, 2019

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net OPEB liability	$ 141,685	$ 111,983	$ 86,520

June 30, 2018

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net pension liability	$ 144,820	$ 115,682	$ 90,706

NOTE 8 LEASES

The Board leases office space under operating lease through June 30, 2034. The Board also leases an apartment in Watford City, North Dakota on a month to month lease. Future payments on operating leases are as follows:

2020	$ 45,000
2021	45,000
2022	46,350
2023	46,350
2024	47,700
2025-2029	246,600
2030-2034	264,600

Rental expense was $58,521 and $63,281 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Board pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Board with blanket fidelity bond coverage in the amount of $100,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The North Dakota Workforce Safety & Insurance is an enterprise fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 GASB 75 ADJUSTMENT

The Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension*, which required a prior period adjustment to net OPEB liability and related deferred outflows as of July 1, 2017. The cumulative effect of implementing this GASB statement was an increase in net OPEB liability of $116,120 and increase of deferred outflows – OPEB of $19,712 on the Statement of Net Position. The adjustments resulted in a decrease of $96,408 in net position on the Statement of Activities.

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the Board's financial statements.

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through March 3, 2020, which is the date these financial statements were available to be issued.

NORTH DAKOTA STATE ELECTRICAL BOARD
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual	Variance with Budget
Revenues:				
Inspection fees	$ 3,639,000	$ 3,639,000	$ 4,166,726	$ 527,726
Master examinations	8,000	8,000	-	(8,000)
Master license	50,000	50,000	91,625	41,625
Journeyman examinations	12,000	12,000	12,875	875
Journeyman license	91,000	91,000	89,850	(1,150)
Class B examination	100	100	-	(100)
Class B license	400	400	893	493
Apprentice registrations	30,000	30,000	28,351	(1,649)
Reinstatements	6,000	6,000	20,740	14,740
Sale of code books	5,000	5,000	-	(5,000)
Administration and late fees	25,000	25,000	43,505	18,505
Continuing education and seminars	38,000	38,000	29,795	(8,205)
Interest income	18,500	18,500	46,690	28,190
Miscellaneous	2,500	2,500	3,419	919
Total revenues	3,925,500	3,925,500	4,534,469	608,969
Expenditures:				
Salaries and benefits	2,124,500	2,124,500	2,168,148	(43,648)
Operating expenses	1,771,000	1,771,000	1,482,465	288,535
Equipment	30,000	30,000	-	30,000
Total expenditures	3,925,500	3,925,500	3,650,613	274,887
Revenues over expenditures	$ -	$ -	883,856	$ 883,856
Fund balance - July 1			11,154,890	
Fund balance - June 30			$ 12,038,746	

See Notes to Required Supplementary Information

NORTH DAKOTA STATE ELECTRICAL BOARD
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance with Budget
Revenues:				
Inspection fees	$3,746,300	$3,746,300	$ 3,700,984	$ (45,316)
Master examinations	8,000	8,000	8,800	800
Master license	50,000	50,000	74,050	24,050
Journeyman examinations	12,000	12,000	9,800	(2,200)
Journeyman license	91,000	91,000	84,306	(6,694)
Class B examination	100	100	-	(100)
Class B license	400	400	867	467
Apprentice registrations	30,000	30,000	25,848	(4,152)
Reinstatements	9,000	9,000	19,635	10,635
Sale of code books	9,000	9,000	12,470	3,470
Administration and late fees	20,000	20,000	35,073	15,073
Continuing education and seminars	32,000	32,000	30,650	(1,350)
Interest income	20,000	20,000	26,189	6,189
Miscellaneous	5,000	5,000	3,939	(1,061)
Total revenues	4,032,800	4,032,800	4,032,611	(189)
Expenditures:				
Salaries and benefits	2,257,500	2,257,500	2,044,015	213,485
Operating expenses	1,872,300	1,872,300	1,415,121	457,179
Equipment	172,000	172,000	82,100	89,900
Total expenditures	4,301,800	4,301,800	3,541,236	760,564
Revenues over expenditures	$ (269,000)	$ (269,000)	491,375	$ (760,753)
Fund balance - July 1			10,663,515	
Fund balance - June 30			$ 11,154,890	

See Notes to Required Supplementary Information

NORTH DAKOTA STATE ELECTRICAL BOARD
SCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2019	0.136768%	$ 2,308,109	$ 1,466,517	157.39%	62.80%
2018	0.141058%	2,267,265	1,586,936	142.87%	61.98%
2017	0.164599%	1,604,178	1,658,769	96.71%	70.46%
2016	0.153933%	1,046,718	1,371,360	76.33%	77.15%
2015	0.133650%	848,305	1,125,847	75.35%	72.12%

See Notes to Required Supplementary Information

NORTH DAKOTA STATE ELECTRICAL BOARD
SCHEDULES OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2019	0.142188%	$ 111,983	$ 1,577,524	7.10%	61.89%
2018	0.146246%	115,682	1,582,152	7.31%	59.78%

See Notes to Required Supplementary Information

NORTH DAKOTA STATE ELECTRICAL BOARD
SCHEDULES OF EMPLOYER'S CONTRIBUTIONS - PENSION
LAST 10 FISCAL YEARS*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 107,455	$ (107,455)	$ -	$ 1,509,200	7.12%
2018	101,583	(101,583)	-	1,466,517	6.93%
2017	112,990	(112,990)	-	1,586,936	7.12%
2016	120,092	(115,615)	4,477	1,658,769	6.97%
2015	104,165	(97,227)	6,938	1,371,360	7.09%

*Complete data for these schedules is not available prior to 2015.

See Notes to Required Supplementary Information

NORTH DAKOTA STATE ELECTRICAL BOARD
SCHEDULES OF EMPLOYER'S CONTRIBUTIONS - OPEB
LAST 10 FISCAL YEARS*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	$ 18,960	$ (18,960)	$ -	$ 1,663,120	1.14%
2018	17,984	(17,984)	-	1,577,524	1.14%

See Notes to Required Supplementary Information

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The Board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

NOTE 2 CHANGES OF ASSUMPTIONS

NDPERS Pension Plan

Amounts reported in 2019 and 2018 reflect actuarial assumption changes effective July 1, 2018 and July 1, 2017 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.

NDPERS OPEB

Amounts reported in 2019 and 2018 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.

NORTH DAKOTA STATE ELECTRICAL BOARD
DETAILED STATEMENTS OF REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES:		
Inspection fees	$4,166,726	$3,700,984
Master examinations	-	8,800
Master license	91,625	74,050
Journeyman examinations	12,875	9,800
Journeyman license	89,850	84,306
Class B license	893	867
Apprentice registrations	28,351	25,848
Reinstatements	20,740	19,635
Sale of code books	-	12,470
Administration and late fees	43,505	35,073
Continuing education and seminars	29,795	30,650
Interest income	46,690	26,189
Miscellaneous	3,419	3,939
Total revenues	4,534,469	4,032,611
EXPENDITURES:		
Salaries - inspectors	1,159,385	1,062,436
Salaries - office	586,445	556,670
Inspection fees to cities	779,684	802,227
Travel - fleet vehicles	207,840	171,414
Travel - employees	48,331	37,344
Travel - board members	9,224	8,573
Travel - PLT Committee	1,311	396
Per diem	10,050	8,550
Payroll taxes	128,848	119,012
Group insurance	218,419	231,504
Pension expense	203,899	193,405
Office rent	44,921	48,664
Apartment/house rent	13,600	14,617
Postage	22,496	23,055
Printing	16,128	13,988
Telephone	22,523	24,201
Professional fees	88,788	106,173
Supplies	8,364	5,680
Insurance	3,621	9,036
Small equipment	25,464	32,788
Maintenance agreements and repairs	1,590	1,859
Code books and publications	-	12,470
Continuing education	1,764	4,895
Education seminars	25,859	27,836
Advertising	-	1,680
Administrative fees	2,925	2,788
Dues & subscriptions	7,001	7,695
Miscellaneous	12,133	12,280
Total expenditures	3,650,613	3,541,236
Revenues over expenditures	$ 883,856	$ 491,375

BradyMartz

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

To the Board of Directors
The North Dakota State Electrical Board
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the North Dakota State Electrical Board, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise North Dakota State Electrical Board's basic financial statements and have issued our report thereon dated March 3, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota State Electrical Board'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 North Dakota State Electrical Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dakota State Electrical Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota State Electrical Board'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*.

North Dakota State Electrical Board's Responses to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

March 3, 2020

2019-001 Material Weakness: Journal Entries

Criteria
The entity is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition
During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause
The entity's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis.

Effect
An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions
Due to the financial, efficiency and time constraints, it has been determined by the Board and the management of the North Dakota State Electrical Board that it is in the best interest of Board, the North Dakota State Electrical Board and all interested parties to have adjustments proposed by the auditing firm in order to for the general ledger accounts to be reflected on a GAAP basis.

2019-002 Significant Deficiency: Preparation of Financial Statements

Criteria
An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition
The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the entity does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause
The Board's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect
An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the entity is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation
We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
Due to the financial, efficiency and time constraints, it has been determined by North Dakota State Electrical Board's management that it is in the best interest of North Dakota State Electrical Board and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.