

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

AUDIT REPORT  
For the Year Ended June 30, 2019

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

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For the Year Ended June 30, 2019

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LERVIK  
&  
JOHNSON

*Certified Public Accountants*

State Auditor  
600 E. Boulevard Avenue  
Bismarck, North Dakota 58505

State Auditor:

Please find enclosed one (1) copy of the Audit Report of Peace Garden Special Services, Bottineau, North Dakota, for the year ended June 30, 2019, for your approval.

Thank you.

Sincerely,

LERVIK & JOHNSON  
Certified Public Accountants



Anthony Johnson, CPA

November 13, 2019

Enclosures

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

**SPECIAL SERVICES OFFICIALS**

At June 30, 2019

<u>Official</u>	<u>Position</u>
Jason Kersten	Board President
Pat Brenden	Board Vice-President
Evan Wilhelm	Board Member
Robbie Voigt	Board Member
Erik Sweet	Board Member
Paul Frydenlund	Board Member
David Sjol	Board Member
Wade Sherwin	Board Member
Melissa Vollmer	Director
Deborah Nelson	Business Manager



# L & JOHNSON

## Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Peace Garden Special Services  
Bottineau, North Dakota

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Peace Garden Special Services, Bottineau, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Unit'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 evaluation 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 activity and the major fund of Peace Garden Special Services, Bottineau, North Dakota, as of June 30, 2019 and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 30, the schedule of unit's share of net pension liability for the last ten fiscal years on page 31, the schedule of the unit's contributions for the last ten fiscal years on page 32, schedules of unit's share of net OPEB liability ND public employees' retirement system for the last 10 fiscal years on page 33, schedules of unit contributions ND public employees' retirement system for the last 10 fiscal years on page 34, and the related notes on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance


### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Peace Garden Special Service's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The 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 financials statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 September 3, 2019, on our consideration of Peace Garden Special Service'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 Peace Garden Special Service's internal control over financial reporting and compliance.



LERVIK & JOHNSON  
Certified Public Accountants  
Bottineau, North Dakota

September 3, 2019



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

STATEMENT OF NET POSITION  
June 30, 2019

ASSETS:

Current Assets:

Cash	\$ 227,956.67
Due from State Government	20,094.00
Due from Federal Government	250,679.75

Total Current Assets 498,730.42

Capital Assets (Net of Accumulated Depreciation) 15,870.70

Total Assets 514,601.12

DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows Relating to Pensions and OPEB 466,525.90

LIABILITIES:

Current Liabilities:

Accounts Payable 28,334.99

Long-Term Liabilities:

Net Pension and OPEB Liabilities 1,761,165.00

Total Liabilities 1,789,499.99

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows Relating to Pensions and OPEB 94,109.00

NET POSITION:

Net Investment in Capital Assets 15,870.70  
Unrestricted (918,352.67)

Total Net Position \$ (902,481.97)

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



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2019

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes In Net Position	
GOVERNMENTAL ACTIVITIES:					
Preschool Special Education	\$ 225,146.04	\$ -	\$ 55,539.16	\$ (169,606.88)	
Speech Impaired Programs	166,398.38	-	-	(166,398.38)	
Speech Pathology	152,407.61	-	100,419.12	(51,988.49)	
Emotionally Disturbed	103,468.37	-	50,209.56	(53,258.81)	
Social Work Services	96,612.34	-	50,209.56	(46,402.78)	
Psychological Services	167,876.31	-	111,477.60	(56,398.71)	
Occupational Therapy	96,325.72	-	111,477.60	15,151.88	
Other Student Support	263,372.18	-	67,669.40	(195,702.78)	
Instructional Staff					
Support Services	57,963.66	-	-	(57,963.66)	
Governing Board	14,089.70	-	-	(14,089.70)	
Special Area					
Administrative Services	382,631.85	-	302,617.93	(80,013.92)	
Business Support Services	33,715.74	-	-	(33,715.74)	
Services Provided for					
Another LEA	38,276.11	573,862.94	-	535,586.83	
Tuition Flow-Through	12,518.77	-	12,518.77	-	
Physical Therapy	68,766.74	-	-	(68,766.74)	
<b>Total Governmental Activities</b>	<b>\$ 1,879,569.52</b>	<b>\$ 573,862.94</b>	<b>\$ 862,138.70</b>	<b>\$ (443,567.88)</b>	
General Revenues:					
Local Revenues; assessments collected				\$ 35,064.00	
Federal aid-not restricted to specific programs				71,746.98	
State aid-not restricted to specific programs				226,732.88	
Earnings on investments and miscellaneous revenue				5,520.90	
<b>Total General Revenues</b>				<b>339,064.76</b>	
Change in Net Position				(104,503.12)	
Net Position - July 1				(797,978.85)	
Net Position - June 30				<b>\$ (902,481.97)</b>	

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

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2019

Total Fund Balances for Governmental Funds \$ 470,395.43

*Amounts reported for governmental activities in the  
Statement of Net Position are different because:*

Capital assets used in governmental activities  
are not current financial resources, so are  
not reported in the governmental funds.

Cost of Capital Assets	75,566.30	
Less Accumulated Depreciation	<u>(59,695.60)</u>	
Net Capital Assets		15,870.70

Some liabilities, including net pension  
and OPEB obligations, are not due and  
payable in the current period and,  
therefore, are not reported in the funds.

Net Pension and OPEB Liability		(1,761,165.00)
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Deferred outflows and inflows of resources  
related to pensions and OPEB are applicable  
to future periods and, therefore, are not  
reported in the funds.

Deferred Outflows of Resources Related to Pensions and OPEB	466,525.90	
Deferred Inflows of Resources Related to Pensions and OPEB	<u>(94,109.00)</u>	

Total Net Position of Governmental Activities \$ (902,481.97)

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

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2019

	General Fund
<u>Revenues:</u>	
Local Sources	\$ 39,654.90
State Sources	239,251.65
Federal Sources	921,366.91
Other Sources	574,792.94
Total Revenues	1,775,066.40
<u>Expenditures:</u>	
Current:	
Preschool Special Education	206,577.93
Speech Impaired Programs	151,623.78
Speech Pathology	138,230.03
Emotionally Disturbed	94,219.51
Social Work Services	87,552.38
Psychological Services	153,321.47
Occupational Therapy	87,983.32
Other Student Support Services	263,372.18
Instructional Staff Support Services	57,963.66
Governing Board	14,089.70
Special Area Administrative Services	347,402.89
Business Support Services	33,715.74
Services Provided for Another LEA	38,276.11
Tuition Flow-Through	12,518.77
Physical Therapy	62,731.13
Capital Outlay	6,807.00
Total Expenditures	1,756,385.60
Excess of Revenues Over (Under) Expenditures	18,680.80
Fund Balance-July 1	451,714.63
Fund Balance-June 30	\$ 470,395.43

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



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2019

Net Change in Fund Balances-Total Governmental Funds \$ 18,680.80

*Amounts reported for governmental activities in the  
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Depreciation Expense	(7,447.26)	
Current Year Capital Outlay	6,807.00	
Loss on Disposal of Assets	<u>(698.28)</u>	
		(1,338.54)

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

Governmental funds report district pension and OPEB contributions as expenditures. However, in the Statement of Activities, the cost of pension and OPEB benefits earned net of employer contribution is reported as pension and OPEB expense.

(121,845.38)

Net change in Net Position of Governmental Activities \$ (104,503.12)

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

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The purpose of the Peace Garden Special Services (the special education unit or the unit) is to prescribe the rules and regulations for special education, assist school districts in the development and administration of special education programs, and establish the standards and provide for the approval and certification of schools and facilities.

The financial statements of the special education unit have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the Peace Garden Special Services as a reporting entity.

B. Financial Statement Presentation

**Government-wide financial statements:** The Statement of Net Position and the Statement of Activities display information about the primary government, Peace Garden Special Services. These statements include the financial activities of the overall government (except fiduciary activities, of which the special education unit has none). Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the unit's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:



*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

**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. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The special education unit has only one governmental fund:

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

### C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe **how** transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

*Economic resources measurement focus:* The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.



Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. This measurement focus also requires capital asset acquisitions to be reported as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to **when** the transactions are recorded, regardless of the measurement focus applied. The special education unit uses the accrual and the modified accrual bases of accounting, as discussed below.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the special education unit gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

#### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the special education unit considers revenue to be available if they are collected within 60 days after year-end. All revenues are considered to be susceptible to accrual.

Under the modified accrual basis of accounting, expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, differences exist from accrual accounting related primarily to payments involving long-term assets and liabilities. These differences were discussed above in the explanation of the current financial resources measurement focus.

#### **D. Budgets**

Based upon available financial information and requests by the governing board, the director and business manager prepare the special education unit 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. The governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The board must approve the budget amendments and the approval must be noted in the proceedings of the board. All appropriations lapse at year-end.



Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized in the governmental funds.

#### E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and certificates of deposit with initial maturities of three months or less. These amounts must be deposited with Bank of North Dakota or in a financial institution situated and doing business within this state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the special education unit to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

#### F. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

#### G. Capital Assets

Capital assets include equipment, and are reported in the government-wide financial statements. Capital assets are defined by the special education unit as assets with an initial, individual cost of \$500 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets consist of equipment, which are depreciated using the straight line method over their estimated useful lives of 5 to 15 years.

#### H. Noncurrent Obligations

Noncurrent obligations may include long-term debt and net pension liabilities. In the government-wide financial statements, noncurrent obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums or discounts are capitalized and amortized over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

##### **Long-Term Debt**

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

##### **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 the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from TFFR's and NDPERS' fiduciary net position have been determined on the same basis as they are reported by TFFR and NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### **Other Post Employment Benefit (OPEB)**

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

#### I. Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.



**Committed Fund Balance** - represents amounts that can only be used for specific purposes imposed by a formal action of the special education unit's highest level of decision-making authority, the Governing board. Committed resources cannot be used for any other purpose unless the Governing Board removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

**Assigned Fund Balance** - represents amounts the special education unit intends to use for specific purposes as expressed by the Governing board or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. As of June 30, 2019, the Governing board has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the special education unit's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The special education unit has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

#### J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### NOTE 2: DEPOSITS

##### *Custodial and Concentration of credit risk:*

The custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the special education unit will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-E, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. During the year ended June 30, 2019, the deposits at First National Bank and Trust were adequately protected by insurance or collateral during the entire year, except July. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the special education unit.

##### *Interest rate risk:*

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the special education unit invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the unit's cash requirements.

NOTE 3: DUE FROM STATE GOVERNMENT

The amount due from state government consists of Right Track reimbursement claims.

NOTE 4: DUE FROM FEDERAL GOVERNMENT

The amount due from federal government consists of funds receivable from the IDEA B Grant.

NOTE 5: CAPITAL ASSETS

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

	Balance 07-01-18	Additions	Deletions	Balance 06-30-19
<b>Governmental Activities:</b>				
<i>Capital Assets Being Depreciated:</i>				
Equipment	\$ 72,936.30	\$ 6,807.00	\$ 4,177.00	\$ 75,566.30
<i>Less Accumulated Depreciation for:</i>				
Equipment	55,727.06	7,447.26	3,478.72	59,695.60
Total Capital Assets				
Being Depreciated, Net	\$ 17,209.24	\$ (640.26)	\$ 698.28	\$ 15,870.70

Depreciation expense was charged to functions/programs of the special education unit as follows:

<u>Governmental Activities:</u>	
Special Area Administration Services	\$ 6,310.82
Preschool Special Education	1,136.44
	<u>\$ 7,447.26</u>

NOTE 6: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed for goods and services received prior to June 30 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

NOTE 7: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Like revenues and expenses, deferrals represent flows of resources into and out of a government during the fiscal year. However, unlike revenues and expenses, which are inflows and outflows of resources related to the period in which they occur, deferrals are related to future periods.

Deferred inflows and outflows on the unit's statement of net position are related to the determination of the unit's net pension and OPEB liability and pension and OPEB expense, as detailed in Note 10 and 11.



Deferred inflows of resources on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting such amounts are measurable but not available. The unit's only deferred inflow of financial resources on its fund financial statements is uncollected property taxes, which are not expected to be collected within the allotted 60 day time period after year end in order to qualify as available under the unit's policy.

NOTE 8: RISK MANAGEMENT

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

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

The Peace Garden Special Services also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Peace Garden Special Services pays an annual premium to the Fire and Tornado Fund to cover property damage and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the political subdivision with blanket fidelity bond coverage in the amount of \$546,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Peace Garden Special Services has insurance with 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 fiscal years.

NOTE 9: SUBSEQUENT EVENTS

The special education unit has evaluated subsequent events through September 3, 2019, the date which the financial statements were available to be issued.

NOTE 10: PENSION PLANS

The unit has two employee pension plans, the North Dakota Teachers' Fund for Retirement (TFRR) and the North Dakota Public Employees Retirement System (NDPERS).

North Dakota Teachers' Fund for Retirement

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



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

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

#### ***Pension Benefits***

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

##### ***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.

#### **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.



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.

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

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

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

Responsibility for administration of the NDPERS defined benefit 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. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

#### **Death and Disability Benefits**

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



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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of 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 (All Plans)**

At June 30, 2019, the unit reported a total liability of \$1,736,368.00 (\$1,170,411.00 for its proportionate share of TFFR's net pension liability and \$565,957.00 for its proportionate share of NDPERS' net pension liability). The net pension liabilities for both plans were measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability for each plan was determined by an actuarial valuation as of that date.

For TFFR, the unit's proportion of the net pension liability was based on the unit's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2018, the unit's proportion related to TFFR was 0.087812 percent, which was an increase of 0.004023 percent from its proportion measured as of July 1, 2017.

Related to NDPERS, the unit's proportion of the net pension liability was based on the unit's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating NDPERS Main System employers. At July 1, 2018 the unit's proportion related to NDPERS was 0.033536 percent, which was a decrease of 0.00141 percent from its proportion measured as of July 1, 2017.



For the year ended June 30, 2019 the unit recognized total pension expense of \$211,898.00, (\$123,865.00 related to TFFR and \$88,033.00 related to NDPERS). At June 30, 2019 the unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TFFR		NDPERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,177.00	\$ 31,832.00	\$ 1,498.00	\$ 13,255.00	\$ 4,675.00	\$ 51,087.00
Changes of assumption	64,476.00	-	204,299.00	8,078.00	268,775.00	8,078.00
Net difference between projected and actual earnings on pension plan investments	-	4,046.00	-	2,753.00	-	6,799.00
Changes in proportion and differences between unit contributions and proportionate share of contributions	91,098.00	-	3,874.00	25,643.00	94,972.00	25,643.00
Unit contributions subsequent to the measurement date	68,127.00	-	23,446.79	-	91,573.79	-
Total	\$ 226,878.00	\$ 35,878.00	\$ 233,117.79	\$ 55,729.00	\$ 459,995.79	\$ 91,607.00

\$91,573.79 (\$68,127.00 from TFFR and \$23,446.79 from NDPERS) reported as deferred outflows of resources related to pensions resulting from the unit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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 Ended June 30:	TFFR	NDPERS	TOTAL
2019	\$ 58,717.00	\$ 52,918.00	\$ 111,635.00
2020	42,356.00	45,338.00	87,694.00
2021	13,655.00	35,272.00	48,927.00
2022	(644.00)	20,193.00	19,549.00
2023	5,018.00	221.00	5,239.00
Thereafter	3,771.00	-	3,771.00

**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:

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

NDPERS Salary Increases:	Increase Rate
Service at Beginning of Year	
0	15.00%
1	10.00%
2	8.00%
Age*	
Under 30	10.00%
36-39	7.50%
40-49	6.75%
50-59	6.50%
60+	6.25%

**TFFR specific actuarial assumptions:**

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, 2018, funding actuarial valuation for TFFR.

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

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 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 as of July 1, 2018 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%	0.0%

**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.

**NDPERS specific actuarial assumptions:**

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table 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:

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%	0.00%
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 of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

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

**Sensitivity of the Unit's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (All Plans)**

The following presents the unit's proportionate share of the net pension liability calculated using the current discount rates for TFFR and for NDPERS, as well as what the unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Unit's Proportionate Share of Net Pension Liability			
	Current Discout		
	1% Decrease (6.75%)	Rate (7.75%)	1% Increase (8.75%)
TFFR	\$ 1,580,394.00	\$ 1,170,411.00	\$ 829,433.00
	1% Decrease (5.32%)	Rate (6.32%)	1% Increase (7.32%)
NDPERS	\$ 769,030.00	\$ 565,957.00	\$ 396,499.00

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

TFFR's Comprehensive Annual Financial Report (CAFR) is located at [www.nd.gov/rio/sib/publications/cafr/default.htm](http://www.nd.gov/rio/sib/publications/cafr/default.htm).

NOTE 11: Other Post Employment Benefits (OPEB)

**North Dakota Public Employees Retirement System**

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

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

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, the school district reported a liability of \$24,797.00 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The school district's proportion of the net OPEB liability was based on the school district's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2018 the school district's proportion was 0.031486 percent which was a decrease of 0.001489.

For the year ended June 30, 2019, the school district recognized OPEB expense of \$2,830.00. At June 30, 2019, the school district reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 741.00	\$ 512.00
Changes of assumption	2,035.00	-
Net difference between projected and actual earnings on OPEB plan investments	-	533.00
Changes in proportion and differences between district contributions and proportionate share of contributions	-	1,457.00
District contributions subsequent to the measurement date	<u>3,754.11</u>	<u>-</u>
Total	<u>\$ 6,530.11</u>	<u>\$ 2,502.00</u>

\$3,754.11 reported as deferred outflows of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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

	OPEB
Year Ended June 30:	
2019	\$ (26.00)
2020	(26.00)
2021	(26.00)
2022	210.00
2023	166.00
Thereafter	(24.00)

**Actuarial assumptions:**

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

	OPEB
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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.75%. 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 school district's proportionate share of the net OPEB liability to changes in the discount rate**

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Current Discount		
	1% Decrease (6.50%)	Rate (7.50%)	1% Increase (8.50%)
OPEB	\$ 31,375.00	\$ 24,797.00	\$ 19,159.00

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2019

	Original and Final Budget	Actual	Variance
<u>Revenues:</u>			
Local Sources	\$ 41,264.00	\$ 39,654.90	\$ (1,609.10)
State Sources	498,722.00	239,251.65	(259,470.35)
Federal Sources	968,019.99	921,366.91	(46,653.08)
Other Sources	700,000.00	574,792.94	(125,207.06)
<b>Total Revenues</b>	<b>2,208,005.99</b>	<b>1,775,066.40</b>	<b>(432,939.59)</b>
<u>Expenditures:</u>			
Current:			
Preschool Special Education	265,552.44	206,577.93	58,974.51
Speech Impaired Programs	151,699.71	151,623.78	75.93
Speech Pathology	135,644.35	138,230.03	(2,585.68)
Emotionally Disturbed	100,150.46	94,219.51	5,930.95
Social Work Services	81,331.53	87,552.38	(6,220.85)
Psychological Services	151,853.84	153,321.47	(1,467.63)
Occupational Therapy	153,150.90	87,983.32	65,167.58
Other Student Support Services	40,000.00	263,372.18	(223,372.18)
Instructional Staff Support Services	45,423.88	57,963.66	(12,539.78)
Governing Board	16,314.75	14,089.70	2,225.05
Special Area Administrative Services	407,999.61	347,402.89	60,596.72
Business Support Services	34,019.75	33,715.74	304.01
Physical Therapy	-	62,731.13	(62,731.13)
Services Provided for Another LEA	51,000.00	38,276.11	12,723.89
Tuition Flow-Through	200,000.00	12,518.77	187,481.23
Other Support Services	286,722.00	-	286,722.00
Capital Outlay	-	6,807.00	(6,807.00)
<b>Total Expenditures</b>	<b>2,120,863.22</b>	<b>1,756,385.60</b>	<b>364,477.62</b>
Excess of Revenues Over (Under) Expenditures	87,142.77	18,680.80	(68,461.97)
Fund Balance-July 1	451,714.63	451,714.63	-
Fund Balance-June 30	\$ 538,857.40	\$ 470,395.43	\$ (68,461.97)

See accompanying notes to required supplementary information.



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

SCHEDULE OF UNIT'S SHARE OF NET PENSION LIABILITY  
LAST 10 FISCAL YEARS\*

ND Teachers' Fund for Retirement:	As of and for the Year				
	2019	2018	2017	2016	2015
1. Unit's proportion of the net pension liability (asset)	0.087812%	0.083789%	0.082304%	0.081928%	0.075491%
2. Unit's proportionate share of the net pension liability (asset)	\$ 1,170,411.00	\$ 1,150,862.00	\$ 1,205,800.00	\$ 1,071,500.00	\$ 791,012.00
3. Unit's covered-employee payroll	\$ 596,955.00	\$ 565,551.00	\$ 534,749.00	\$ 503,942.00	\$ 437,889.00
4. Unit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	196.06%	203.49%	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability	65.50%	63.20%	59.20%	62.10%	66.60%
	As of and for the Year				
	Ended June 30,				
	2019	2018	2017	2016	2015
ND Public Employees Retirement System:					
1. Unit's proportion of the net pension liability (asset)	0.033536%	0.034946%	0.035142%	0.038176%	0.036180%
2. Unit's proportionate share of the net pension liability (asset)	\$ 565,957.00	\$ 561,697.00	\$ 342,493.00	\$ 259,590.00	\$ 229,642.00
3. Unit's covered-employee payroll	\$ 344,523.00	\$ 356,741.00	\$ 354,144.00	\$ 340,101.00	\$ 304,769.00
4. Unit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.27%	157.45%	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	62.80%	61.98%	70.46%	77.15%	77.70%

\* Complete data for these schedules is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

SCHEDULES OF UNIT'S CONTRIBUTIONS  
LAST 10 FISCAL YEARS\*

ND Teachers' Fund for Retirement:	As of and for the Year				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 76,112.00	\$ 72,108.00	\$ 68,180.00	\$ 64,250.00	\$ 47,073.00
Contributions in relation to the statutorily required contribution	\$ (76,112.00)	\$ (72,108.00)	\$ (68,180.00)	\$ (64,250.00)	\$ (47,073.00)
Contribution deficiency (excess)		-	-	-	-
Unit's covered-employee payroll	\$ 596,955.00	\$ 565,551.00	\$ 534,749.00	\$ 503,942.00	\$ 437,889.00
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	12.75%	12.75%	10.75%

ND Public Employees Retirement System:	As of and for the Year				
	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 25,375.00	\$ 25,868.00	\$ 25,640.00	\$ 25,833.00	\$ 21,700.00
Contributions in relation to the statutorily required contribution	\$ (22,421.00)	\$ (25,155.00)	\$ (25,917.00)	\$ (22,808.00)	\$ (21,700.00)
Contribution deficiency (excess)	\$ 2,954.00	\$ 713.00	\$ (277.00)	\$ 3,025.00	-
Unit's covered-employee payroll	\$ 344,523.00	\$ 356,741.00	\$ 354,144.00	\$ 340,101.00	\$ 304,769.00
Contributions as a percentage of covered-employee payroll	6.51%	7.05%	7.32%	6.71%	7.12%

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

See accompanying notes to required supplementary information.



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

SCHEDULE OF UNIT'S SHARE OF NET OPEB LIABILITY  
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS\*

OPEB	As of and for the Year Ended June 30,	
	2019	2018
1. District's proportion of the net OPEB liability (asset)	0.031486%	0.032975%
2. District's proportionate share of the net OPEB liability (asset)	\$ 24,797.00	\$ 26,084.00
3. District's covered-employee payroll	\$ 344,523.00	\$ 356,741.00
4. District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.20%	7.31%
5. Plan fiduciary net position as a percentage of the total OPEB liability	61.89%	59.78%

\* Complete data for these schedules is not available prior to 2017. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

PEACE GARDEN SPECIAL SERVICES  
 Bottineau, North Dakota

SCHEDULE OF UNIT CONTRIBUTIONS  
 ND PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 LAST 10 FISCAL YEARS\*

OPEB	As of and for the Year	
	Ended June 30,	
	2019	2018
Statutorily required contribution	\$ 4,041.00	\$ 4,147.00
Contributions in relation to the statutorily required contribution	\$ (3,590.00)	\$ (4,028.00)
Contribution deficiency (excess)	\$ 451.00	\$ 119.00
District's covered-employee payroll	\$ 344,523.00	\$ 356,741.00
Contributions as a percentage of covered-employee payroll	1.04%	1.13%

\* Complete data for these schedules is not available prior to 2017.

See accompanying notes to required supplementary information.



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2019

NOTE 1: BUDGETARY COMPARISON SCHEDULE

Based upon available financial information and requests by the governing board, the director and business manager prepare the special education unit 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. The governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The board must approve the budget amendments and the approval must be noted in the proceedings of the board. All appropriations lapse at year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized in the governmental funds.

NOTE 2: PENSION PLANS

***TFFR Changes of Assumptions.*** Amounts related to TFFR reported in 2016 and late 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.

***NDPERS Changes of Assumptions.*** Amounts related to NDPERS 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.

NOTE 3: OTHER POST EMPLOYMENT BENEFITS (OPEB)

***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.

PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Pass-through programs from State			
Department of Public Instruction:			
Special Education Cluster (IDEA):			
Special Education-Grants to States	84.027	F84027A	\$ 888,195.07
Special Education-Preschool Grants	84.173	F84173A	<u>33,171.84</u>
Total Expenditures of Federal Funds			<u>\$ 921,366.91</u>

See accompanying notes to schedule of expenditures of federal awards.



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2019

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Peace Garden Special Services under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the special education unit, it is not intended to and does not present the financial position or changes in net position of the special education unit.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 225, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

# LERVIK & JOHNSON

## Certified Public Accountants

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

Governing Board  
Peace Garden Special Services  
Bottineau, North Dakota

We have audited, 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, the financial statements of the governmental activities and the major fund of Peace Garden Special Services, Bottineau, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Peace Garden Special Services, Bottineau, North Dakota's basic financial statements and have issued our report thereon dated September 3, 2019.

#### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 questioned costs, item 19-1, to be a material weakness.



### **Compliance and Other Matters**

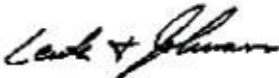
As part of obtaining reasonable assurance about whether Peace Garden Special Services, Bottineau, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with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

### **Peace Garden Special Services, Bottineau, North Dakota's Response to Findings**

Peace Garden Special Services, Bottineau, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Peace Garden Special Services, Bottineau, North Dakota'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.



LERVIK & JOHNSON  
Certified Public Accountants  
Bottineau, North Dakota

September 3, 2019

# L & J JOHNSON

## Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board  
Peace Garden Special Services  
Bottineau, North Dakota

#### **Report on Compliance for Each Major Federal Program**

We have audited Peace Garden Special Services, Bottineau, North Dakota's compliance with the types of compliance requirements described in the OMB Circular Compliance Supplement that could have a direct and material effect on each of Peace Garden Special Services, Bottineau, North Dakota's major federal programs for the year ended June 30, 2019. Peace Garden Special Services, Bottineau, North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Peace Garden Special Services, Bottineau, North Dakota's compliance.



## **Opinion on Each Major Federal Program**

In our opinion, Peace Garden Special Services, Bottineau, North Dakota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## **Report on Internal Control Over Compliance**

Management of Peace Garden Special Services, Bottineau, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Peace Garden Special Services, Bottineau, North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Peace Garden Special Services, Bottineau, North Dakota's internal control over compliance.

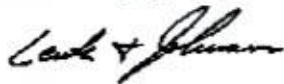
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses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

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 19-1 to be a significant deficiency.

Peace Garden Special Service's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Peace Garden Special Service's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



LERVIK & JOHNSON  
Certified Public Accountants

September 3, 2019



PEACE GARDEN SPECIAL SERVICES  
Bottineau, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2019

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the general purpose financial statements of Peace Garden Special Services, Bottineau, North Dakota.
2. A deficiency disclosed during the audit of the financial statements is reported in the 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. The deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Peace Garden Special Services, Bottineau, North Dakota were disclosed during the audit.
4. One significant deficiency in internal control over major programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance. The deficiency is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for Peace Garden Special Services, Bottineau, North Dakota expresses an unmodified opinion on all major federal programs.
6. Any audit findings that are required to be reported in accordance with the Uniform Guidance-2CFR 200.516(a) for Peace Garden Special Services, Bottineau, North Dakota are reported in this schedule.
7. The program tested as a major program was Special Education Cluster (Federal CFDA number 84.027 and 84.173).
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Peace Garden Special Services, Bottineau, North Dakota was not determined to be a low-risk auditee.

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

19-1 Segregation of Duties

Condition:

Peace Garden Special Services, Bottineau, North Dakota, has one business manager responsible for most accounting functions.

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the special education unit.

**Effect:**

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

**Recommendation:**

Due to the size of the special education unit, it is not feasible to obtain proper separation of duties and no recommendation will be made.

**Client Response:**

At the present time the Peace Garden Special Services has segregated the accounting duties in the most effective manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

**FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**SIGNIFICANT DEFICIENCY**

The deficiency described above as Finding 19-1 is a significant deficiency, although not a material weakness, in internal control over major programs.