**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
**GRAFTON, NORTH DAKOTA**

AUDITED BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
JUNE 30, 2020

| | |
|---|---|
| Brad Brummond | President |
| Maggie Suda | Board Member |
| Nathan Green | Board Member |
| Brad Becker | Board Member |
| Dan Johnson | Board Member |
| Michael Larson | Board Member |
| Michael Hanson | Director |
| Lisa Tucker | Business Manager |

BradyMartz

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education
North Valley Area Career and Technology Center
Grafton, North Dakota

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of North Valley Area Career and Technology Center, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Center’s basic financial statements as listed in the table of contents.

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

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

### *Auditor’s Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of North Valley Area Career and Technology Center as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The roster of school officials listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The roster of school officials on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**
**GRAND FORKS, NORTH DAKOTA**

November 12, 2020

The discussion and analysis of North Valley Area Career and Technology Center's financial performance provides an overall review of the Center's financial activities for the year ended June 30, 2020. The intent of this discussion and analysis is to look at the Center's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the Center's financial performance.

## Financial Highlights

Key financial highlights for 2020 are as follows:

- Net position of the Center decreased by $49,071 as a result of the current year's operations.
- Governmental net position totaled $(47,419).
- Total revenues were $2,476,228 compared to $2,543,411 for the prior year.
- Total expenses were $2,525,299 compared to $2,539,060 for the prior year.
- The Center's general fund had $2,476,228 in total revenues and $2,570,104 in expenditures. Overall, the general fund balance decreased by $93,876 for the year ended June 30, 2020.

## Using this Annual Report

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand North Valley Area Career and Technology Center as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending.

## Reporting the School Center as a Whole

### Statement of Net Position and the Statement of Activities

The view of the Center as a whole looks at all financial transactions and asks the question, "How did the Center do financially during the year ended June 30, 2020?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's net position and changes in its net position. This change in net position is important because it tells the reader that, for the Center as a whole, the financial position of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the Center's property tax base, current property tax laws in North Dakota, facility condition, required educational programs and other factors.

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

## Reporting the School Center's Most Significant Funds

### Fund Financial Statements

Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental fund is the General Fund.

### Governmental Funds

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

### Financial Analysis of the Center as a Whole

Recall that the Statement of Net Position provides the perspective of the Center as a whole.

Table 1 provides a summary of the Center's net position as of June 30, 2020 and 2019.

As indicated in the financial highlights, the Center's net position was $(47,419). Net position may serve over time as a useful indicator of the Center's financial position.

The Center's net position of $(47,419) is segregated into two separate categories. Net position invested in Capital Assets (net of related debt) represents $392,954 of the Center's net position. It should be noted that these assets are not available for future spending. Unrestricted net position represents $(440,373) of the Center's net position. The unrestricted net position is available to meet the Center's ongoing obligations.

Table 1

| | 2020 | 2019 |
|---|---|---|
| Assets | | |
| Current Assets | $ 973,637 | $ 1,060,865 |
| Capital Assets (Net of Accumulated Depreciation) | 392,954 | 308,100 |
| Total Assets | 1,366,591 | 1,368,965 |
| Deferred Outflows of Resources | 329,737 | 348,060 |
| Liabilities | | |
| Current Liabilities | 69,920 | 63,272 |
| Non-Current Liabilities | 1,399,974 | 1,440,798 |
| Total Liabilities | 1,469,894 | 1,504,070 |
| Deferred Inflows of Resources | 273,853 | 211,303 |
| Net Position | | |
| Net Investment in Capital Assets | 392,954 | 308,100 |
| Unrestricted | (440,373) | (306,448) |
| Total Net Position | $ (47,419) | $ 1,652 |

Table 2 shows the changes in net position for the fiscal years ended June 30, 2020 and 2019:

Table 2

| | 2020 | 2019 |
|---|---|---|
| Revenues | | |
| Charges for Services | $ 960,875 | $ 1,047,469 |
| Operating Grants and Contributions | 1,482,538 | 1,445,377 |
| Interest Income | 9,220 | 8,468 |
| Other | 23,595 | 42,097 |
| Total Revenues | 2,476,228 | 2,543,411 |
| Expenditures | | |
| Instructional Support Services | 2,083,043 | 2,093,988 |
| Administration | 163,171 | 156,066 |
| Director | 124,831 | 124,913 |
| Operations and Maintenance | 154,254 | 164,093 |
| Total Expenditures | 2,525,299 | 2,539,060 |
| Change in Net Position | (49,071) | 4,351 |
| Net Position - Beginning | 1,652 | (2,699) |
| Net Position - Ending | $ (47,419) | $ 1,652 |

Charges for services made up 39% of operating grants, 60% of contributions, and interest income made up less than 1% of the total revenues of governmental activities of the Center for fiscal year 2020.

Instructional Support Services comprised 82%, Administration 6%, Director 5%, and Operations and Maintenance made up 6% of Center expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table 3

| | Total Cost for Year Ended 6/30/2020 | Net Cost for Year Ended 6/30/2020 | Total Cost for Year Ended 6/30/2019 | Net Cost for Year Ended 6/30/2019 |
|---|---|---|---|---|
| Instruction | $ 2,083,043 | $ 360,370 | $ 2,093,988 | $ 398,858 |
| Administration | 163,171 | (163,171) | 156,066 | (156,066) |
| Director | 124,831 | (124,831) | 124,913 | (124,913) |
| Operations and Maintenance | 154,254 | (154,254) | 164,093 | (164,093) |
| Total Expenses | $ 2,525,299 | $ (81,886) | $ 2,539,060 | $ (46,214) |

Administration includes expenses associated with administrative and financial supervision of the Center.

Operations and maintenance of plant activities involve maintaining the school grounds, buildings, and equipment in an effective working condition.

Director includes expenses related to the Century 21 grant, which supports the education of the students.

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

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

The focus of the Center's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally may be used as a measure of the Center's net resources available for spending at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. The Center's governmental funds had total revenues of $2,476,228 and expenditures of $2,570,104 for the year ended June 30, 2020. As of June 30, 2020, the unassigned fund balance of the Center's general fund was $903,512.

**Budget Highlights**

During the course of the 2020 fiscal year, the Center received $25,546 more revenues and incurred $44,669 more expenditures than budgeted. This is primarily the result of more local income received during the year as well more training and capital expenditures incurred than anticipated during the budgeting process.

## Capital Assets

As of June 30, 2020, the Center had $392,954 invested in capital assets, net of accumulated depreciation. Table 4 shows balances as of June 30, 2020 and 2019 (see Note 4 for details).

Table 4

| | 2020 | 2019 |
|---|---|---|
| Buildings | $ 15,803 | $ - |
| Equipment | 302,292 | 279,225 |
| Vehicles | 74,859 | 28,875 |
| Total | $ 392,954 | $ 308,100 |

## Debt Administration

As of June 30, 2020, the Center had no outstanding debt.

## For the Future

The North Valley Area Career and Technology Center has benefited from adequate support of member school districts. The Center has also benefited from continued funding from the State of North Dakota. These elements have enabled the Center to meet many of its instructional and administrative staffing needs.

## Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. You may request a copy of this report by contacting Lisa Tucker, Business Manager, North Valley Area Career and Technology Center, 1540 School Road, Grafton, ND 58237, or email at lisa.tucker@k12.nd.us.

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
STATEMENT OF NET POSITION
JUNE 30, 2020

| | | 2020 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 314,228 |
| Investments | | 200,000 |
| Intergovernmental Receivable | | 417,701 |
| Accounts Receivable | | 41,503 |
| Prepaid Expense | | 205 |
| Total Current Assets | | 973,637 |
| Non-Current Assets: | | |
| Capital Assets | | |
| Buildings | | 92,078 |
| Equipment | | 875,688 |
| Vehicles | | 84,900 |
| Less Accumulated Depreciation | | (659,712) |
| Total Non-Current Assets | | 392,954 |
| TOTAL ASSETS | | 1,366,591 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Cost Sharing Defined Benefit Pension Plan - TFFR | | 207,173 |
| Cost Sharing Defined Benefit Pension Plan - NDPERS | | 118,134 |
| Cost Sharing Defined Benefit OPEB Plan - NDPERS | | 4,430 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | 329,737 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accrued Liabilities | | 69,920 |
| Total Current Liabilities | | 69,920 |
| Long-Term Liabilities: | | |
| Compensated Absences | | 6,787 |
| Net OPEB Liability | | 14,657 |
| Net Pension Liability | | 1,378,530 |
| Total Non-Current Liabilities | | 1,399,974 |
| TOTAL LIABILITIES | | 1,469,894 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Cost Sharing Defined Benefit Pension Plan - TFFR | | 158,082 |
| Cost Sharing Defined Benefit Pension Plan - NDPERS | | 115,259 |
| Cost Sharing Defined Benefit OPEB Plan - NDPERS | | 512 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | | 273,853 |
| NET POSITION | | |
| Net Investment in Capital Assets | | 392,954 |
| Unrestricted | | (440,373) |
| TOTAL NET POSITION | $ | (47,419) |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Instructional Support Services | $ 2,083,043 | $ 960,875 | $ 1,482,538 | $ 360,370 |
| Administration | 163,171 | - | - | (163,171) |
| Director | 124,831 | - | - | (124,831) |
| Operations and Maintenance | 154,254 | - | - | (154,254) |
| TOTAL GOVERNMENTAL ACTIVITIES | $ 2,525,299 | $ 960,875 | $ 1,482,538 | (81,886) |
| GENERAL REVENUES | | | | |
| Interest Income | | | | 9,220 |
| Other General Revenues | | | | 23,595 |
| TOTAL GENERAL REVENUES | | | | 32,815 |
| Change in Net Position | | | | (49,071) |
| Net Position - Beginning | | | | 1,652 |
| Net Position - Ending | | | | $ (47,419) |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

| | | General Fund |
|---|---|---|
| ASSETS | | |
| Cash | $ | 314,228 |
| Investments | | 200,000 |
| Intergovernmental Receivables | | 417,701 |
| Accounts Receivable | | 41,503 |
| Prepaid Expense | | 205 |
| TOTAL ASSETS | $ | 973,637 |
| LIABILITIES | | |
| Accrued Liabilities | $ | 69,920 |
| TOTAL LIABILITIES | | 69,920 |
| FUND BALANCES | | |
| Nonspendable | | 205 |
| Unassigned | | 903,512 |
| TOTAL FUND BALANCES | | 903,717 |
| TOTAL LIABILITIES AND FUND BALANCES | $ | 973,637 |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2020

| | | |
|---|---|---|
| Total fund balances - governmental funds | | $ 903,717 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in government funds: | | |
| Cost of capital assets | $ 1,052,666 | |
| Less: accumulated depreciation | (659,712) | |
| Net | | 392,954 |
| Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds. | | 55,884 |
| Long-term liabilities are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds. | | |
| Compensated Absences | | (6,787) |
| Net OPEB Liability | | (14,657) |
| Net Pension Liability | | (1,378,530) |
| Net Position - Governmental Activities | | $ (47,419) |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

| | General Fund |
|---|---|
| REVENUES | |
| Local Sources | $ 993,690 |
| Revenue from State Sources | 750,375 |
| Revenue from Federal Sources | 732,163 |
| TOTAL REVENUES | 2,476,228 |
| EXPENDITURES | |
| Current: | |
| Community Services Adult Education | 33,142 |
| Improvement of Instruction | 8,444 |
| School Board | 20,889 |
| Director | 124,831 |
| Administrative Assistant | 142,282 |
| Operation & Maintenance of Plant | 154,254 |
| Carl Perkins - Admin | 3,446 |
| Agriculture | 189,482 |
| Marketing | 61,769 |
| Health Careers | 78,226 |
| Consumer & Homemaking | 13,988 |
| Modern Business Technology | 77,787 |
| Auto Technology | 94,700 |
| Welding | 87,431 |
| Construction Trades | 103,435 |
| W/P Technology Cooperative | 9,204 |
| Vocational Guidance | 341,066 |
| Vocational Special Needs | 2,167 |
| Instructional Staff Training | 121,844 |
| Bremer | 2,168 |
| Emerging Technology | 81,862 |
| Title IV - 21st Century | 663,253 |
| Capital Outlay | 154,434 |
| TOTAL EXPENDITURES | 2,570,104 |
| Net Change in Fund Balances | (93,876) |
| Fund Balance - Beginning of Year | 997,593 |
| Fund Balance - End of Year | $ 903,717 |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| | | |
|---|---|---|
| Total net change in fund balances - Governmental Funds | | $ (93,876) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense. | | |
| Capital Outlays | $ 154,434 | |
| Depreciation Expense | (69,580) | |
| Excess of capital outlay over depreciation expense | | 84,854 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consisted of the (increase)/decrease in: | | |
| Compensated Absences | | 2,403 |
| Changes in deferred outflows and inflows of resources related to net pension liability | | (80,873) |
| Change in OPEB liability | | (1,003) |
| Change in net pension liability | | 39,424 |
| Change in net position - Governmental Activities | | $ (49,071) |

See Notes to the Basic Financial Statements

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
JUNE 30, 2020

| | | |
|---|---|---|
| ASSETS | | |
| Cash | $ | 396,185 |
| Investments | | 44,300 |
| Accounts Receivable | | 315 |
| TOTAL ASSETS | $ | 440,800 |
| | | |
| LIABILITIES | | |
| Accrued Liabilities for Red River Valley Education Coop | $ | 1,004 |
| Amount Held for Student Groups | | 63,286 |
| Amount Held for Red River Valley Education Coop | | 300,866 |
| Amount Held for ITV | | 76,648 |
| TOTAL LIABILITIES | $ | 440,800 |

See Notes to the Basic Financial Statements

## NOTE 1 DESCRIPTION OF THE SCHOOL CENTER AND REPORTING ENTITY

The North Valley Area Career and Technology Center (NVACTC) operates in the City of Grafton, North Dakota.

The Technology Center Board is comprised of member school Center board members and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the NVACTC (the primary government) and its component units. A component unit would be included in the NVACTC's reporting entity because of the significance of their operational or financial relationship with the NVACTC. The criteria established by GASB Statement No. 61 in determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the school Center 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 Center.

Based on these criteria, there are no component units to be included within the Center's reporting entity.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The Center's significant accounting policies are described below.

### *Basis of Presentation*

The Center's basic financial statements consist of government-wide statements and fund financial statements.

### Government-Wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the Center as a whole.

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

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the Center. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program and grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Center.

The Government-wide financial statements do not include fiduciary funds of component units that are fiduciary in nature.

**Fund Financial Statements**

In order to aid financial management and to demonstrate legal compliance, the Center segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

***Fund Accounting***

The Center's funds consist of the following:

**Governmental Funds**

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

**General Fund:**
This fund is the general operating fund of the Center. It accounts for all financial resources except those requiring to be accounted for in another fund.

**Fiduciary Funds**

The Center's fiduciary funds are agency funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Center's agency fund consists of the following:

**Student Activity Fund:**
The fund accounts for the financial transactions related to the Center's student activity programs.

**Red River Valley Education Coop:**
The fund accounts for the financial transactions related to the Red River Valley Education Coop.

**ITV Fund:**
The fund accounts for the financial transactions related to the Center's ITV programs.

***Measurement Focus and Basis of Accounting***

**Measurement Focus**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred inflows and outflows of resources, and liabilities associated with the operation of the Center are included in the statement of net position.

*Fund Financial Statements:*

The governmental funds are accounted for by using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the Center's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

**Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Center's governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Center considers revenues to be available if they are collected within 60 days of the end of its fiscal year. Expenditures are generally recorded as the related fund liability is incurred.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Revenues - Exchange and Non-Exchange Transactions**

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the accrual basis of accounting, revenue for exchange transactions is recorded when the exchange takes place. Under the modified accrual basis of accounting, revenue for exchange transactions is recorded when the resources are measurable and available.

Non-exchange transactions include transactions in which the Center receives value without directly providing value in return. Non-exchange transactions include property taxes, grants, entitlements, and donations.

Under the accrual basis of accounting, property taxes are recorded as revenue in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recorded in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenue from non-exchange transactions must also be available before it is recorded in the financial records of the Center.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues and investment income.

**Unearned Revenues**

Unearned revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenues.

On the governmental fund financial statements, receivables that will not be collected during the availability period have been reported as unearned revenue.

**Expenses and Expenditures**

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

**Budgets and Budgetary Accounting**

The Center’s Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each Center, annually on or before the last day of July must levy taxes. The governing body of the Center may amend its budget for the current fiscal year on or before the tenth day of October of each year.

The Center follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the Center's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget at the September board meeting to ensure it is adopted before the tenth of October each year. The budget is then filed with the county auditor by October tenth of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the Center's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

The General fund expenditures were $44,669 more than budgeted at June 30, 2020.

**Cash and Cash Equivalents**

The Center considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Investments**

Investments are recorded at market value. North Dakota State Statute authorizes school Centers to invest their surplus funds 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, instrumentality's, 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 of the state, d) Obligations of the state.

**Fair Value Measurements**

The Center accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

### Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the Center's fiscal year. The Center has established a capitalization threshold of $3,000. Donated fixed assets are recorded at their acquisition values at the date received. The Center does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The Center's capital assets are depreciated over their estimated useful lives on a straight-line basis. The Center has established the following useful lives:

| | |
|---|---|
| Building | 5 to 15 Years |
| Equipment | 5 to 15 Years |
| Vehicles | 5 to 10 Years |

### Compensated Absences

Sick leave accrues at a rate of $15 per day up to a maximum of 70 days. Upon retirement, an employee will be paid for any unused sick days.

### Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Center's government-wide financial statements. The Center's governmental fund financials report only those obligations that will be paid from current financial resources.

### Pensions

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

### Other Post-Employment Benefits (OPEB)

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

### Fund Balance Classifications

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

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

> *Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
>
> *Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the school board-the Center's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
>
> *Assigned* – This classification reflects the amounts constrained by the Center's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board and superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.
>
> *Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Center has two items reported on the statement of net position as *cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan,* which represents actuarial differences within the NDPERS and TFFR pension plans and NDPERS OPEB plan as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Center has two items reported on the statement of net position *as cost sharing defined benefit pension plan* and *cost sharing defined benefit OPEB plan*, which represents the actuarial differences within the NDPERS and TFFR pension plans and NDPERS OPEB plan.

**Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the Center's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows or resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Inter-fund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds.

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the Center's governmental activities and its business-type activities, is eliminated in the statement of activities.

**Estimates**

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

**Significant Group Concentrations of Credit Risk**

As of June 30, 2020, the Center's receivables consist of amounts due from other governmental units within the State of North Dakota.

## NOTE 3 CASH AND INVESTMENTS

### Custodial Credit Risk – Deposits

In accordance with North Dakota laws, the Center maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the Center treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2020, the carrying amount of the Center's deposits, including investments which consist solely of certificates of deposit was $954,713 and the bank balance was $1,390,068. The Center's investments consist of CD's. The entire deposit and investment balance were covered by Federal Depository Insurance or by collateral held by the Center's Agent in the Center's name in amounts sufficient to meet North Dakota legal requirements.

### Credit Risk

The Center may also invest idle funds as authorized by North Dakota laws, as follows:

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.

### Interest Rate Risk

The Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Concentration of Credit Risk

The Center places no limit on the amount the Center may invest in any one issuer.

### Custodial Credit Risk - Investments

The investments are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

## NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the general fixed assets account group during the year:

| | Balance 7/1/2019 | Additions | Disposals | Balance 6/30/2020 |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital Assets Being Depreciated | | | | |
| Buildings | $ 76,007 | $ 16,071 | $ - | $ 92,078 |
| Equipment | 787,225 | 88,463 | - | 875,688 |
| Vehicles | 35,000 | 49,900 | - | 84,900 |
| Total | 898,232 | 154,434 | - | 1,052,666 |
| Less Accumulated Depreciation | | | | |
| Buildings | 76,007 | 268 | - | 76,275 |
| Equipment | 508,000 | 65,396 | - | 573,396 |
| Vehicles | 6,125 | 3,916 | - | 10,041 |
| Total | 590,132 | 69,580 | - | 659,712 |
| Net Capital Assets Being Depreciated | 308,100 | 84,854 | - | 392,954 |
| Net Capital Assets for Governmental Activities | $ 308,100 | $ 84,854 | $ - | $ 392,954 |

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

| | |
|---|---|
| Regular Instruction | $ 65,396 |
| Operations & Maintenance | 268 |
| Transportation | 3,916 |
| Total | $ 69,580 |

## NOTE 5 LONG-TERM LIABILITIES

The Center has no outstanding bonds. Long-term liabilities are as follows:

| | Balance 7/1/2019 | Additions | Retirements | Balance 6/30/2020 | Due in One Year |
|---|---|---|---|---|---|
| Compensated Absences | $ 9,190 | $ - | $ 2,403 | $ 6,787 | $ - |
| Net OPEB Liability | 13,654 | 5,186 | 4,183 | 14,657 | - |
| Net Pension Liability | 1,417,954 | 427,661 | 467,085 | 1,378,530 | - |
| Total | $ 1,440,798 | $ 432,847 | $ 473,671 | $ 1,399,974 | $ - |

Net pension liability, compensated absences and net OPEB liability are generally liquidated through the general fund.

## NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the Center are required by state law to belong to pension plans administered by Teacher's Fund for Retirement (TFFR) or the North Dakota Public Employee Retirement System (NDPERS), both of which are administered on a statewide basis.

Disclosures relating to these plans follow:

### North Dakota Teacher's Fund For Retirement

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

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

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

#### *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.

### Pension Costs

At June 30, 2020, the Center reported a liability of $1,149,073 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2019, the Employer's proportion was 0.083432 percent, which was an increase of 0.000428 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Employer recognized pension expense of $95,213. At June 30, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 1,641 | $ 41,470 |
| Changes in actuarial assumptions | 40,840 | - |
| Difference between projected and actual investment earnings | 16,174 | - |
| Changes in proportion | 58,189 | 116,612 |
| Contributions paid to TFFR subsequent to the measurement date | 90,329 | - |
| Total | $ 207,173 | $ 158,082 |

$90,329 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

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

| Year ending June 30: | Pension Expense Amount | |
|---|---|---|
| 2021 | $ | (2,239) |
| 2022 | | (29,511) |
| 2023 | | (5,680) |
| 2024 | | 10,073 |
| 2025 | | (11,873) |
| Thereafter | | (2,008) |

**Actuarial Assumptions**

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

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

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

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

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

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 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 pension plan’s target asset allocation as of July 1, 2019 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global Equities | 58.00% | 6.90% |
| Global Fixed Income | 23.00% | 2.10% |
| Global Real Assets | 18.00% | 5.40% |
| Cash Equivalents | 1.00% | 0.00% |

## Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2019, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2019. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2019.

## Pension Liability Sensitivity

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

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| | 6.75% | 7.75% | 8.75% |
| Center's proportionate share of the TFFR net pension liability: | $ 1,551,834 | $ 1,149,073 | $ 814,367 |

## Pension Plan Fiduciary Net Position

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

**North Dakota Public Employees' Retirement 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. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

**Death and Disability Benefits**

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

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

**Refunds of Member Account Balance**

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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

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

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

At June 30, 2020, the Center reported a liability of $229,457 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the Center's proportion was 0.019577 percent which was an increase of 0.001111 from its proportion measured July 1, 2018.

For the year ended June 30, 2020, the Center recognized pension expense of $48,911. At June 30, 2020, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 136 | $ 41,642 |
| Changes in actuarial assumptions | 85,742 | 73,617 |
| Difference between projected and actual investment earnings | 3,998 | - |
| Changes in proportion | 16,517 | - |
| Contributions paid to NDPERS subsequent to the measurement date | 11,741 | - |
| Total | $ 118,134 | $ 115,259 |

$11,741 reported as deferred outflows of resources related to pensions resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

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

| Year ending June 30: | Pension Expense Amount |
|---|---|
| 2021 | $ 14,693 |
| 2022 | 6,106 |
| 2023 | (5,256) |
| 2024 | (18,482) |
| 2025 | (5,927) |

### Actuarial Assumptions

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

Inflation 2.50%

Salary increases

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

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

Investment rate of return 7.50%, 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 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 | 30.00% | 6.25% |
| International Equity | 21.00% | 6.95% |
| Private Equity | 7.00% | 10.15% |
| Domestic Fixed Income | 23.00% | 2.11% |
| Global Real Assets | 19.00% | 5.41% |

### Discount Rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

### Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| | 6.50% | 7.50% | 8.50% |
| Center's proportionate share of the NDPERS net pension liability: | $ 328,991 | $ 229,457 | $ 145,830 |

### Pension Plan Fiduciary Net Position

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

## NOTE 7 DEFINED BENEFIT OPEB PLAN

### *Defined Benefit OPEB Plan*

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to $5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

At June 30, 2020, the Center reported a liability of $14,657 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Center’s proportion of the net OPEB liability was based on the Center’s share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Center’s proportion was 0.018249 percent which was an increase of 0.000912 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Center recognized OPEB expense of $2,068. At June 30, 2020, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 362 | $ 458 |
| Changes of assumptions | 1,747 | - |
| Net difference between projected and actual earnings on OPEB plan investments | 16 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contribution | 558 | 54 |
| Center contributions subsequent to the measurement date | 1,747 | - |
| Total | $ 4,430 | $ 512 |

$1,747 reported as deferred outflows of resources related to OPEB resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021.

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

| Year Ending June 30: | |
|---|---|
| 2021 | $ 345 |
| 2022 | 345 |
| 2023 | 481 |
| 2024 | 456 |
| 2025 | 309 |
| 2026 | 199 |
| Thereafter | 36 |

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

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | Not applicable |
| Investment rate of return | 7.25%, net of investment expenses |
| Cost-of-living adjustments | None |

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Large Cap Domestic Equities | 33.00% | 6.00% |
| Small Cap Domestic Equities | 6.00% | 7.30% |
| Domestic Fixed Income | 40.00% | 2.07% |
| International Equities | 21.00% | 6.95% |

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

***Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate*.** The following presents the net OPEB liability of the Plans as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | 1% Decrease in Discount Rate 6.25% | Discount Rate 7.25% | 1% Increase in Discount Rate 8.25% |
|---|---|---|---|
| Center's proportionate share of the net OPEB liability | $ 18,708 | $ 14,657 | $ 11,190 |

**Pension Plan Fiduciary Net Position**

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

## NOTE 8 RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

The Center also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Center pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with 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 Center with blanket fidelity bond coverage in the amount of $2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Center participates in the North Dakota Worker’s Compensation Bureau 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 CONTINGENT LIABILITIES

The Center participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Center has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020, may be impaired. In the opinion of the Center, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## NOTE 10 COMMITMENTS

### Lease Commitments

The Center leases copy machines under a non-cancelable operating lease for five years. The following is a schedule of future minimum rentals under the lease at June 30, 2020:

| Year Ending June 30, | | |
|---|---|---|
| 2021 | $ | 2,250 |

## NOTE 11 LEASE OF BUILDINGS

The Center leases a building and pays for maintenance and custodial services on an annual basis from the Grafton Public School Center. During the year ended June 30, 2020, the Center paid payments totaling $83,000 to the School. The rent for the 2020-2021 school year has been set at $35,000. The lease agreement calls for the District to insure the building and for North Valley Career and Technical Center to pay for any structural repairs or improvements. The Center pays all other operating costs including utilities and insurance on contents.

The Center leases a classroom on an annual basis from the Park River Public School District. During the year ended June 30, 2020, the Center paid payments totaling $3,361 to the School. The rent for the 2020-2021 school year has been set at $3,361.

## NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

## NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Center's year end. Subsequent events have been evaluated through November 12, 2020, which is the date these financial statements were available to be issued.

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---|---|---|---|---|
| REVENUES | | | | |
| Local Sources | $ 953,323 | $ 953,323 | $ 993,690 | $ 40,367 |
| Revenue from State Sources | 774,842 | 774,842 | 750,375 | (24,467) |
| Revenue from Federal Sources | 722,517 | 722,517 | 732,163 | 9,646 |
| TOTAL REVENUES | 2,450,682 | 2,450,682 | 2,476,228 | 25,546 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community Services Adult Education | 57,000 | 57,000 | 33,142 | (23,858) |
| Improvement of Instruction | 14,365 | 14,365 | 8,444 | (5,921) |
| School Board | 19,400 | 19,400 | 20,889 | 1,489 |
| Director | 158,561 | 158,561 | 124,831 | (33,730) |
| Administrative Assistant | 204,363 | 204,363 | 142,282 | (62,081) |
| Operation & Maintenance of Plant | 163,725 | 163,725 | 154,254 | (9,471) |
| Carl Perkins - Admin | 3,290 | 3,290 | 3,446 | 156 |
| Agriculture | 179,422 | 179,422 | 189,482 | 10,060 |
| Marketing | 62,602 | 62,602 | 61,769 | (833) |
| Health Careers | 82,963 | 82,963 | 78,226 | (4,737) |
| Consumer & Homemaking | 14,970 | 14,970 | 13,988 | (982) |
| Modern Business Technology | 73,159 | 73,159 | 77,787 | 4,628 |
| Auto Technology | 99,034 | 99,034 | 94,700 | (4,334) |
| Welding | 83,908 | 83,908 | 87,431 | 3,523 |
| Construction Trades | 80,775 | 80,775 | 103,435 | 22,660 |
| W/P Technology Cooperative | 13,500 | 13,500 | 9,204 | (4,296) |
| Vocational Guidance | 457,361 | 457,361 | 341,066 | (116,295) |
| Vocational Special Needs | 1,828 | 1,828 | 2,167 | 339 |
| Instructional Staff Training | 53,509 | 53,509 | 121,844 | 68,335 |
| Bremer | - | - | 2,168 | 2,168 |
| Emerging Technology | 45,000 | 45,000 | 81,862 | 36,862 |
| Title IV - 21st Century | 656,700 | 656,700 | 663,253 | 6,553 |
| Capital Outlay | - | - | 154,434 | 154,434 |
| TOTAL EXPENDITURES | 2,525,435 | 2,525,435 | 2,570,104 | 44,669 |
| Excess (Deficiency) of Revenues over Expenditures | (74,753) | (74,753) | (93,876) | (19,123) |
| Net Change in Fund Balances | (74,753) | (74,753) | (93,876) | (19,123) |
| Fund Balance - Beginning of Year | 997,593 | 997,593 | 997,593 | - |
| Fund Balance - End of Year | $ 922,840 | $ 922,840 | $ 903,717 | $ (19,123) |

See Notes to the Required Supplementary Information

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
SCHEDULE OF CENTER'S CONTRIBUTIONS TO THE TFFR AND NDPERS PENSION PLANS
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

**Teachers Fund for Retirement**

| Fiscal Year Ended June 30 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Center's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2020 | $ 90,329 | $ 90,329 | $ - | $ 708,466 | 12.75% |
| 2019 | 74,626 | 74,626 | - | 585,301 | 12.75% |
| 2018 | 71,943 | 71,943 | - | 564,266 | 12.75% |
| 2017 | 74,811 | 74,811 | - | 586,754 | 12.75% |
| 2016 | 66,522 | 66,522 | - | 531,762 | 12.51% |
| 2015 | 63,171 | 63,171 | - | 587,647 | 10.75% |

**North Dakota Public Employees Retirement System**

| Fiscal Year Ended June 30 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Center's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2020 | $ 11,741 | $ 11,741 | $ - | $ 163,290 | 7.19% |
| 2019 | 14,499 | 14,499 | - | 203,641 | 7.12% |
| 2018 | 14,048 | 14,048 | - | 197,306 | 7.12% |
| 2017 | 13,035 | 13,035 | - | 186,217 | 7.00% |
| 2016 | 11,854 | 10,003 | 1,851 | 156,054 | 7.60% |
| 2015 | 8,643 | 8,643 | - | 121,394 | 7.12% |

The Center implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
SCHEDULE OF CENTER'S CONTRIBUTIONS TO THE NDPERS OPEB PLAN
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

**North Dakota Public Employees Retirement System – OPEB**

| Fiscal Year Ended June 30 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Center's Covered - Employee Payroll | Contributions as a Percentage of Covered - Employee Payroll |
|---|---|---|---|---|---|
| 2020 | $ 1,747 | $ 1,747 | $ - | $ 163,290 | 1.07% |
| 2019 | 2,322 | 2,322 | - | 203,641 | 1.14% |
| 2018 | 2,249 | 2,249 | - | 197,306 | 1.14% |

The Center implemented GASB Statement No. 75 for its fiscal year ended June 30, 2018. Information for prior years is not available.

See Notes to the Required Supplementary Information

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
SCHEDULE OF CENTER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

**Teachers Fund for Retirement**

| For the Fiscal Year Ended June 30 | Center's Proportion of the Net Pension Liability (Asset) | Center's Proportionate Share of the Net Pension Liability (Asset) (a) | Center's Covered-Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2019 | 0.083432% | $ 1,149,073 | $ 585,301 | 196.32% | 65.50% |
| 2018 | 0.083004% | 1,106,320 | 564,266 | 196.06% | 65.50% |
| 2017 | 0.086618% | 1,189,724 | 584,649 | 203.49% | 63.20% |
| 2016 | 0.078961% | 1,156,820 | 513,027 | 225.49% | 59.20% |
| 2015 | 0.084825% | 1,109,388 | 531,762 | 208.62% | 62.10% |
| 2014 | 0.101309% | 1,061,539 | 587,647 | 180.64% | 66.60% |

**North Dakota Public Employees Retirement System**

| For the Fiscal Year Ended June 30 | Center's Proportion of the Net Pension Liability (Asset) | Center's Proportionate Share of the Net Pension Liability (Asset) (a) | Center's Covered-Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2019 | 0.019577% | $ 229,457 | $ 203,638 | 112.68% | 71.66% |
| 2018 | 0.018466% | 311,634 | 189,700 | 164.28% | 62.80% |
| 2017 | 0.018241% | 293,193 | 186,217 | 157.45% | 61.98% |
| 2016 | 0.017899% | 174,443 | 180,382 | 96.71% | 70.46% |
| 2015 | 0.017517% | 119,113 | 156,054 | 76.33% | 77.15% |
| 2014 | 0.014410% | 91,463 | 121,394 | 75.34% | 77.70% |

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The Center implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

**NORTH VALLEY AREA CAREER AND TECHNOLOGY CENTER**
SCHEDULE OF CENTER'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

**North Dakota Public Employees Retirement System – OPEB**

| For the Fiscal Year Ended June 30 | Center's proportion of the net OPEB liability (asset) | Center's proportionate share of the net OPEB liability (asset) | Center's covered - employee payroll | Center's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | Plan fiduciary net position as a percentage of the total OPEB liability |
|---|---|---|---|---|---|
| 2019 | 0.0182% | $ 14,657 | $ 203,638 | 7.20% | 63.13% |
| 2018 | 0.0173% | 13,654 | 189,700 | 7.20% | 61.89% |
| 2017 | 0.0172% | 13,616 | 186,217 | 7.31% | 59.78% |

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The Center implemented GASB Statement No. 75 for its fiscal year ended June 30, 2018. Information for prior years is not available.

See Notes to the Required Supplementary Information

## NOTE 1– BUDGETARY COMPARISON

### Budgets and Budgetary Accounting:

The Center's Board follows the procedures established by North Dakota law for the budgetary process. The governing body of each School Center, annually on or before the last day of July must levy taxes. The governing body of the School Center may amend its budget for the current fiscal year on or before the tenth day of October of each year. During the current year in the General Fund, actual expenditures exceeded budgeted expenditures by $44,669.

The Center follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the Center's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget before October tenth of each year. The budget is then filed with the county auditor by October tenth of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10 of each year. The budget amounts shown in the financial statements are the final authorized amounts.

4. All appropriations lapse at the close of the Center's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

## NOTE 2 – CHANGES OF BENEFIT TERMS AND ASSUMPTIONS

### TFFR

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

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

## NDPERS

### Changes of benefit terms

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

### Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

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

## OPEB

### Changes of benefit terms

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

### Changes of assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

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

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

To the Board of Education
North Valley Area Career and Technology Center
Grafton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Valley Area Career and Technology Center as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise North Valley Area Career and Technology Center's basic financial statements and have issued our report thereon dated November 12, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Valley Area Career and Technology Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether North Valley Area Career and Technology Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Center's Response To Findings**

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

**Purpose Of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**
**GRAND FORKS, NORTH DAKOTA**

November 12, 2020

## SECTION II – FINANCIAL STATEMENT FINDINGS

### 2020-001

**Criteria**
An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

**Condition**
The Center's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the entity currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Center has elected to have the auditors assist in the preparation of the financial statements and notes.

**Cause**
The Center elected to not allocate resources for the preparation of the financial statements.

**Effect**
There is an increased risk of material misstatement to the Center's financial statements.

**Recommendation**
We recommend the entity consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

**Management's Response**
Management agrees with comment and will implement when it becomes cost-effective. The District will also continue to review and approve the draft financial statements.

**2020-002**

**Criteria**
An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled appropriately.

**Condition**
The Center has one employee who is responsible for most accounting functions. The business manager collects monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger and prepares financial reports.

**Cause**
There is one employee for multiple functions such as executing and recording transactions.

**Effect**
Lack of segregation of duties leads to a limited degree of internal control.

**Recommendation**
The Center should separate the duties when it becomes feasible. As a compensating control, the Center should ensure additional oversight by the Director and Board regarding financial transaction activity.

**Management's Response**
The Director reviews and signs off on all the bank reconciliations.