SOURIS VALLEY SPECIAL SERVICES
MINOT, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Souris Valley Special Services
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Souris Valley Special Services as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Souris Valley Special Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Souris Valley Special Services 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 budgetary comparison schedule-general fund, schedules of employer contributions - pension, schedules of employer's proportionate share of net pension liability, schedule of employer contributions – OPEB, schedule of employer's proportionate share of net OPEB liability, and notes to required supplementary information, as listed on 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.

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 20, 2020, on our consideration of Souris Valley Special Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Souris Valley Special Services' 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 Souris Valley Special Services' internal control over financial reporting and compliance.

Brady Martz

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

October 20, 2020

SOURIS VALLEY SPECIAL SERVICES
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 820,989
Investments	114,705
Due from other governments	375,199
Total current assets	1,310,893
Non-current assets:	
Capital assets	100,857
Less: accumulated depreciation	(43,654)
Total non-current assets	57,203
Total assets	1,368,096
DEFERRED OUTFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	787,209
Cost sharing defined benefit plan - OPEB	13,050
Total deferred outflows of resources	800,259
LIABILITIES	
Current liabilities:	
Accounts payable	4,850
Contracts payable	234,520
Accrued payroll taxes and benefits	81,083
Total current liabilities	320,453
Long-term liabilities:	
Net pension liability	2,841,209
Net OPEB liability	25,378
Total long-term liabilities	2,866,587
Total liabilities	3,187,040
DEFERRED INFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	1,317,879
Cost sharing defined benefit plan - OPEB	4,133
Total deferred inflows of resources	1,322,012
NET POSITION	
Net investment in capital assets	57,203
Unrestricted	(2,397,900)
Total net (deficit) position	$ (2,340,697)

SEE NOTES TO THE FINANCIAL STATEMENTS

SOURIS VALLEY SPECIAL SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

		Program Revenue		Net (Expense) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities				
Instruction:				
Special education	$ 899,088	$ 649,263	$ 230,096	$ (19,729)
Support Services:				
Pupil services	1,078,506	10,482	1,125,461	57,437
Instructional staff services	307,056	-	311,166	4,110
Administration services	155,699	60,690	108,585	13,576
Business services	136,561	-	136,561	-
Operations and maintenance	61,248	-	61,248	-
Total support services	1,739,070	71,172	1,743,021	75,123
Total governmental activities	$ 2,638,158	$ 720,435	$ 1,973,117	55,394
	General revenues:			
	Miscellaneous			21,890
	Change in net position			77,284
	Total net deficit, beginning of year			(2,417,981)
	Net (deficit) position - end of year			$ (2,340,697)

SEE NOTES TO THE FINANCIAL STATEMENTS

SOURIS VALLEY SPECIAL SERVICES
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

		General Fund
ASSETS		
Cash and cash equivalents	$	820,989
Investments		114,705
Due from other governments		375,199
Total assets	$	1,310,893
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$	4,850
Contracts payable		234,520
Accrued payroll taxes and benefits		81,083
Total liabilities		320,453
Fund balance:		
Unassigned		990,440
Total liabilities and fund balance	$	1,310,893

SEE NOTES TO THE FINANCIAL STATEMENTS

SOURIS VALLEY SPECIAL SERVICES
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balance - governmental funds	$ 990,440
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.	57,203
Deferred outflows relating to the cost sharing defined benefit plans for pension in the governmental activities are not financial resources and therefore not reported in the governmental funds	787,209
Deferred outflows relating to the cost sharing defined benefit plans for OPEB in the governmental activities are not financial resources and therefore not reported in the governmental funds	13,050
Long-term liabilities applicable to SVSS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net position.	
Balances at June 30, 2020 are:	
Net pension liability	(2,841,209)
Net OPEB liability	(25,378)
Deferred inflows relating to the cost sharing defined benefit plans for pension in the governmental activities are not financial resources and therefore not reported in the governmental funds	(1,317,879)
Deferred inflows relating to the cost sharing defined benefit plans for OPEB in the governmental activities are not financial resources and therefore not reported in the governmental funds	(4,133)
Net (deficit) position of governmental activities	$ (2,340,697)

SEE NOTES TO THE FINANCIAL STATEMENTS

SOURIS VALLEY SPECIAL SERVICES
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund
REVENUES	
Local sources	$ 675,227
Federal sources	1,973,118
Other sources	67,095
Total revenues	2,715,440
EXPENDITURES	
Instruction:	
Special education	855,696
Support services:	
Pupil services	1,125,974
Instructional staff services	311,166
Administration services	242,029
Business services	147,761
Operations and maintenance	38,643
Capital outlay	22,605
Total support services	1,888,178
Total Expenditures	2,743,874
Excess of revenues over expenditures	(28,434)
Fund balance - beginning of year	1,018,874
Fund balance - end of year	$ 990,440

SEE NOTES TO THE FINANCIAL STATEMENTS

SOURIS VALLEY SPECIAL SERVICES
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds		$ (28,434)
The change in net position reported for governmental activities in the statement of activities is difference because:		
Governmental funds report outlays as expenditures. However, in the statement of activities, the cost of those assets with a cost greater than $5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation for the current year:		
Current year capital outlay (over $5,000)	22,605	
Depreciation expense	(19,190)	
		3,415
Change in capital assets due to disposal of assets		(6,792)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Net increase in net pension liability	(115,681)	
Net decrease in net OPEB liability	(5,095)	
		(120,776)
Changes in deferred outflows and inflows relating to net pension liability		223,838
Changes in deferred outflows and inflows relating to net OPEB liability		6,033
Change in net (deficit) position of governmental activities		$ 77,284

SEE NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

Souris Valley Special Services (SVSS) was created to provide special education to students of its member school districts, with some services also being provided on a contract basis to non-member districts. The North Dakota State Legislature enacted laws which provide that "handicapped children" must receive an education comparable with all children. In order to provide the best possible program, these districts banded together in a common group. Board members are appointed by the member districts to administer the combined program. The Board contracts administrative staff to operate the program. SVSS accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

Reporting Entity

The accompanying financial statements present the activities of SVSS. SVSS has considered all potential component units for which SVSS is financially accountable and other organizations for which the nature and significance of their relationships with SVSS such that exclusion would cause SVSS' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of SVSS 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 SVSS.

Based on these criteria, there are no component units to be included within SVSS as a reporting entity.

Accounting Standards

SVSS follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities.

Basis of Presentation

SVSS' basic financial statements consist of government-wide and fund financial statements.

<u>Government-wide Financial Statements</u>
The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about SVSS as a whole, and include the financial activities of the reporting entity, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of SVSS at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of SVSS' governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of SVSS.

The comparison of direct-expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of SVSS.

<u>Fund Financial Statements</u>
In order to aid financial management and to demonstrate legal compliance, SVSS segregates transactions related to certain functions or activities into 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. Nonmajor funds are aggregated and presented in a single column.

Fund Accounting

SVSS' funds consist of the following:

<u>Governmental Funds</u>
Governmental funds are utilized to account for most of SVSS' 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. SVSS' major governmental fund is as follows:

General fund - The general fund is the general operating fund of SVSS and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Measurement Focus and Basis of Accounting

<u>Measurement Focus</u>

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

Government-wide Financial Statements

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

Fund Financial Statements

The governmental funds are accounted for 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 in which the governmental activities of the government-wide financial statements are prepared. Due to the difference, SVSS' financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Fiduciary funds also use the economic resources measurement focus.

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.

SVSS' 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. SVSS 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.

Revenues-Exchange and Non-Exchange Transactions

Exchange transactions are transactions in which each party gives and receives essentially equal value. Under the modified 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 SVSS receives value without directly providing value in return. Non-exchange transactions include grants, entitlement, and donations.

Under the accrual basis of accounting, 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 SVSS.

Major revenue sources susceptible to accrual include intergovernmental revenues.

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 Board of SVSS follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund.

Budgets for the general fund are prepared on the modified accrual basis of accounting, which is the same basis used for financial reporting purposes.

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

Investments are recorded at cost. North Dakota state statute authorizes SVSS to invest its 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 above 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.

Capital Assets

Capital assets include vehicles and equipment. 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. Capital assets are defined by SVSS as assets with an initial, individual cost of $5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Improvements that significantly extend the useful life of the asset are also capitalized.

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

Vehicles	5 years
Equipment	10 years

Accrued Liabilities and Long-term Obligations

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in SVSS' 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 related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of 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.

Deferred Outflows / Inflows of Resources

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

In addition to liabilities, the statement of financial 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. Souris Valley Special Services has two items reported on the statement of net position as a cost sharing defined benefit plan, one which represents the actuarial differences within the NDPERS and TFFR pension plans as well as amounts paid to the plans after the measurement date, and another which represents the actuarial differences within the NDPERS OPEB liability as well as amounts paid to the plan subsequent to the measurement date. See Notes 9, 10, and 11 for more details.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in a spendable form, such as inventory and prepaid items, or legally or contractually required to be maintained intact.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Public Instruction.

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Directors.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is SVSS' intended use. These constraints are established by the Board of Directors and/or management.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

SVSS considers the spendable fund balances to have been spent when expenditures are incurred.

When both restricted and unrestricted resources are available for use it is SVSS' policy to use restricted resources first, then unrestricted resources as needed in the following order: 1) committed, 2) assigned, and 3) unassigned.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and 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 expenses, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to and 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.

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits – This is the risk that, in the event of the failure of the counterparty, SVSS will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party.

SVSS maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to $250,000 per applicable financial institution. At June 30, 2020, SVSS' bank balance totaled $1,710,830. The bank balances were fully collateralized as of June 30, 2020. State statute requires the market value of collateral pledged to equal 110% of the deposits not covered by federal depository insurance.

Interest Rate Risk

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

NOTE 3 INVESTMENTS

Investments consist of certificates of deposit held at financial institutions. SVSS elects to exclude investments with maturity of one year or less from date of purchase from fair value reporting. These investments are reported at cost. As of June 30, 2020, SVSS had the following investments:

Description	Reported Amount	Maturity	Interest Rate
Certificate of deposit	$ 114,705	3/28/2021	1.10%

NOTE 4 DUE FROM OTHER GOVERNMENTS

SVSS had the following amounts due from other governments included in accounts receivable at June 30, 2020:

From	For	Amount
ND Department of Public Instruction	Pass-through grant	$ 375,199

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of the Year
Governmental Activities Equipment and Vehicles	$ 93,346	$ 22,605	$ 15,094	$ 100,857
Less Accumulated Depreciation Equipment and Vehicles	32,766	19,190	8,302	43,654
Net Capital Assets for Governmental Activities	$ 60,580	$ 3,415	$ 6,792	$ 57,203

Depreciation expense of $19,190 was charged to Administration Services in the statement of activities for the year ended June 30, 2020.

NOTE 6 CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2020, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Net pension liability *	$ 2,725,529	$ 1,034,099	$ (918,419)	$ 2,841,209
Net OPEB liability **	20,283	12,338	(7,243)	25,378
Total	$ 2,745,812	$ 1,046,437	$ (925,662)	$ 2,866,587

* See Notes 9 and 10 for more information on the net pension liability. The general fund would liquidate any liability owed.

** See Note 11 for more information on the net OPEB liability. The general fund would liquidate any liability owed.

NOTE 7 ECONOMIC DEPENDENCY

SVSS receives a substantial amount of its support from federal and local governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on SVSS' programs and therefore on its continued operations.

NOTE 8 RISK MANAGEMENT

SVSS 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 other political subdivisions 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. SVSS pays an annual premium to NDIRF for its general, personal injury, and auto insurance. The coverage by NDIRF is limited to losses of $2,000,000 per occurrence.

SVSS also participates in the State Bonding Fund which currently provides blanket fidelity bond coverage in the amount of $947,018 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

SVSS continues to carry commercial insurance for all other risks of loss, including workers' compensation, 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 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 Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, Souris Valley Special Services reported a liability of $2,433,924 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 0.17744919 percent, which was an increase of 0.00769501 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Employer recognized pension expense of $138,195. 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 experience	$ 3,490	$ (88,202)
Changes of assumptions	86,861	-
Net difference between projected and actual earnings on pension plan investments	34,401	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	255,822	(660,139)
Employer contributions subsequent to the measurement date	158,934	-
Total	$ 539,508	$ (748,341)

$158,934 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 ended June 30:		
2021	$	(69,071)
2022		(127,074)
2023		(131,260)
2024		(83,932)
2025		35,273
Thereafter		8,297

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 Fund'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.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	$ 3,300,545	$ 2,443,924	$ 1,732,051

***Pension plan fiduciary net position*.** Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at www.nd.gov/rio/sib/publications/cafr/default.htm.

NOTE 10 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 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. 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 Employer reported a liability of $397,286 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 Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019, the Employer's proportion was 0.03896 percent, which was an increase of 0.011528 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Employer recognized pension expense of $58,718. 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 experience	$ 235	$ (72,100)
Changes of assumptions	148,455	(127,462)
Net difference between projected and actual earnings on pension plan investments	6,922	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	63,102	(369,976)
Employer contributions subsequent to the measurement date	28,987	-
Total	$ 247,701	$ (569,537)

$28,987 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 ended June 30:	
2021	$ (117,911)
2022	(127,079)
2023	(71,100)
2024	(27,122)
2025	(7,611)

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

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 - 39	7.50%
	40 - 49	6.75%
	50 - 59	6.00%
	60+	5.25%

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

Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled 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 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 7.75%, the municipal bond rate is 3.13%, and the resulting Single Discount Rate is 7.50%.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate*.** The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension liability	$ 569,622	$ 397,286	$ 252,493

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

NOTE 11 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, vison 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 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 Employer reported a liability of $25,378 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 Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Employer's proportion was 0.031597 percent which was an increase of 0.005843 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Employer recognized OPEB expense of $3,658. At June 30, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 627	$ (793)
Changes of assumptions	3,025	-
Net difference between projected and actual earnings on OPEB plan investments	28	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,729	(3,340)
Employer contributions subsequent to the measurement date	4,641	-
Total	$ 13,050	$ (4,133)

$4,641 reported as deferred outflows of resources related to OPEB resulting from Employer 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 ended June 30:		
2021	$	673
2022		673
2023		910
2024		866
2025		428
Thereafter		726

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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net OPEB liability	$ 32,392	$ 25,378	$ 19,375

OPEB Plan Fiduciary Net Position

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

NOTE 12 CONTINGENCIES

SVSS received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. SVSS' management believes it has complied in all material respects with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of SVSS as of June 30, 2020.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

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

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to SVSS' year end. Subsequent events have been evaluated through October 20, 2020, which is the date these financial statements were available to be issued.

SOURIS VALLEY SPECIAL SERVICES
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDING JUNE 30, 2020

	Budgeted Amounts - Final	Actual Amounts	Variance - Final to Actual Results
REVENUES			
Local sources	$ 688,151	$ 675,227	$ (12,924)
Federal sources	2,085,787	1,973,118	(112,669)
Other sources	23,700	67,095	43,395
Total revenues	2,797,638	2,715,440	(82,198)
EXPENDITURES			
Instruction:			
Special education	868,481	855,696	12,785
Support services			
Pupil services	1,130,947	1,125,974	4,973
Instructional staff services	320,412	311,166	9,246
Administration services	314,876	242,029	72,847
Business services	160,350	147,761	12,589
Operations and maintenance	64,000	38,643	25,357
Capital outlay	-	22,605	(22,605)
Total support services	1,990,585	1,888,178	102,407
Total Expenditures	2,859,066	2,743,874	115,192
Excess of revenues over expenditures	$ (61,428)	$ (28,434)	$ 32,994

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SOURIS VALLEY SPECIAL SERVICES
SCHEDULES OF EMPLOYER CONTRIBUTIONS – PENSION
LAST TEN FISCAL YEARS*

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered-employee payroll
2020	$ 158,934	$ (158,934)	$ -	$ 1,246,541	12.75%
2019	158,719	(158,719)	-	1,244,855	12.75%
2018	147,136	(147,136)	-	1,154,005	12.75%
2017	129,886	(129,886)	-	1,018,717	12.75%
2016	190,325	(190,325)	-	1,492,745	12.75%
2015	196,461	(196,461)	-	1,540,949	12.75%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT PLAN

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered-employee payroll
2020	$ 28,987	$ (28,987)	$ -	$ 407,121	7.12%
2019	24,447	(24,447)	-	343,349	7.12%
2018	22,749	(22,749)	-	319,501	7.12%
2017	33,331	(33,331)	-	468,131	7.12%
2016	85,810	(85,810)	-	1,205,197	7.12%
2015	86,178	(86,178)	-	1,210,366	7.12%

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

SOURIS VALLEY SPECIAL SERVICES
SCHEDULES OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.177449%	$ 2,443,924	$ 1,244,857	196.32%	65.50%
2019	0.169754%	2,262,583	1,154,005	196.06%	65.50%
2018	0.150928%	2,073,028	1,018,717	203.49%	63.20%
2017	0.229750%	3,365,978	1,492,745	225.49%	59.20%
2016	0.250518%	3,276,413	1,540,949	212.62%	62.10%
2015	0.254310%	2,645,029	1,460,235	181.14%	66.60%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT PLAN

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.038960%	$ 397,286	$ 343,349	112.68%	71.66%
2019	0.027432%	462,946	319,501	144.90%	62.80%
2018	0.034217%	549,980	468,131	117.48%	61.98%
2017	0.116698%	1,137,336	1,205,197	94.37%	70.46%
2016	0.133462%	907,519	1,210,366	74.98%	77.15%
2015	0.130107%	825,817	1,095,995	75.35%	77.70%

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

SOURIS VALLEY SPECIAL SERVICES
SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB
LAST TEN FISCAL YEARS*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered-employee payroll
2020	$ 4,641	$ (4,641)	-	$ 407,123	1.14%
2019	3,914	(3,914)	-	343,333	1.14%
2018	3,642	(3,642)	-	319,501	1.14%

* Complete data for this schedule is not available prior to 2018.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SOURIS VALLEY SPECIAL SERVICES
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY
LAST TEN FISCAL YEARS*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2020	0.031597%	$ 25,378	$ 343,333	7.39%	60.42%
2019	0.025754%	20,283	319,501	6.35%	61.89%
2018	0.032287%	25,539	349,298	7.31%	59.78%

* Complete data for this schedule is not available prior to 2018.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

Budgets are prepared for Souris Valley Special Services' funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets present in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the entity.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the entity.

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

Amounts reported in 2016 and later reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 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 Pension Plan

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 of July 1, 2018.

NDPERS OPEB

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.

NOTE 3 CHANGES OF BENEFIT TERMS

NDPERS Pension Plan

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.

NDPERS OPEB

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.

SOURIS VALLEY SPECIAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures($)
U.S. Department of Education:			
Passed through the ND Department of Public Instruction:			
Special Education - Grants to States	84.027	PII024	$ 1,930,053
Special Education - Preschool Grants	84.173	PII026	43,065
Total Special Education Cluster			1,973,118
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 1,973,118

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The Organization does not draw for indirect administrative costs and has not elected to use the 10% de minimis cost rate.

NOTE 3 BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal award activity of Souris Valley Special Services under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Souris Valley Special Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Souris Valley Special Services.

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

To the Board of Directors
Souris Valley Special Services
Minot, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each fund of Souris Valley Special Services as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Souris Valley Special Services' basic financial statements, and have issued our report thereon dated October 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Souris Valley Special Services' 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 Souris Valley Special Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Souris Valley Special Services' 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 to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness as item 2020-001.

Compliance and Other Matters

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

Souris Valley Special Services' Response to Finding

Souris Valley Special Services' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Souris Valley Special Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Brady Martz

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

October 20, 2020

BradyMartz

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

To the Board of Directors
Souris Valley Special Services
Minot, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Souris Valley Special Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement,* that could have a direct and material effect on each of Souris Valley Special Services' major federal program for the year ended June 30, 2020. Souris Valley Special Services' major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questions costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Souris Valley Special Services' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Brady Martz

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

October 20, 2020

SOURIS VALLEY SPECIAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	x yes	___ no
Significant deficiency(ies) identified?	___ yes	x none reported
Noncompliance material to financial statements noted?	___ yes	x no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___ yes	x no
Significant deficiency(ies) identified?	___ yes	x none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are Required to be reported in accordance with 2 CDF 200.516(a)?	___ yes	x no

CFDA Number(s)	Name of Federal Program or Cluster
84.027 & 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as a low-risk auditee?	___ yes	x no

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-001: Adjusting Journal Entries and Financial Statements- Material Weakness

Criteria
A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition
The entity'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 and recording government wide adjustments, as required by accounting principles generally accepted in the United States of America. The entity has elected to have the auditors assist in the preparation of the financial statements and notes.

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

Effect
There is an increased risk of material misstatement to the entity'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.

Views of Responsible Officials and Planned Corrective Actions
Souris Valley Special Services has decided to accept the degree of risk associated with SVSS not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Indication of Repeat Finding
This is a repeat of finding 2019-001 from the prior year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings that are required to be reported under this section.

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-001: Adjusting Journal Entries and Financial Statements- Material Weakness

Criteria
A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition
Souris Valley Special Services does not have an internal control system designed to provide for the preparation of the financial statements being audited, in addition, as auditors, we prepared several journal entries in order to present the financial statements in accordance with generally accepted accounting principles.

Cause
This control deficiency could result in a misstatement to the presentation of the footnotes in the audit ready financial statements.

Effect
Inadequate controls over financial reporting of SVSS results in more than a remote likelihood that SVSS would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation
The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions
Souris Valley Special Services has decided to accept the degree of risk associated with SVSS not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Current Status
This finding was repeated in the current year as 2020-001.

2019-002: Undercollateralized

Criteria
In accordance with the North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater then a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition
SVSS had a balance of $1,733,400 on deposit at one financial institution as of June 30, 2019 that was covered by $250,000, of FDIC coverage with the remaining balance of $1,483,400 collateralized with securities held by the pledging financial institutions agent in SVSS's name.

Cause
The value of pledged securities totaled $1,374,047. The value of the pledged securities required by the North Dakota Century Code 21-04-09 was $1,631,740. SVSS was under collateralized by $257,694.

Effect
SVSS did not have all their deposits adequately covered by FDIC coverage and/or pledged securities as of June 30, 2019 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation
We recommended SVSS review all bank accounts and pledged securities to ensure all deposits are adequately covered by FDIC coverage and/or pledged securities.

Views of Responsible Officials and Planned Corrective Actions
A representative at First Western Bank monitors our balances weekly to identify if our pledges securities are adequate to cover our bank deposits. This is a manual process and a timing issue happened as of June 30, 2019. I have contacted First Western Bank to identify a process that will eliminate the risk of this happening again.

Current Status
This finding has been corrected.

2020-001

Contact Person
Darlene Pullen, Business Manager

Corrective Action Plan
Souris Valley Special Services has decided to accept the degree of risk associated with SVSS not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Completion Date
Souris Valley Special Services will implement when it becomes cost effective.