

**NORTH DAKOTA STATE ELECTRICAL BOARD  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 and 2016

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

North Dakota State Electrical Board  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of the North Dakota State Electrical Board as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the North Dakota State Electrical Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 funds of the North Dakota State Electrical Board as of June 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Dakota State Electrical Board's basic financial statements. The detailed statements of revenues and expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2017 on our consideration of North Dakota State Electrical Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Electrical Board's internal control over financial reporting and compliance.



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

November 4, 2017

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2017 AND 2016**

As management of the North Dakota State Electrical Board, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2017 and 2016.

**Financial Highlights**

- The net position of the Board as of June 30, 2017 and 2016 was \$9,584,121 and \$9,508,179, respectively.
- The Board's total net position increased for the years ending June 30, 2017 and 2016 by \$75,942 and \$1,223,557, respectively.

**Overview of the Financial Statements**

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

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

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

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

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

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

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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

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

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

The following table present condensed financial information on the Board's Net Position as of June 30, 2017, 2016 and 2015.

**Net Position as of June 30, 2017, 2016 and 2015**

	<b>Governmental Activities 2017</b>	<b>Governmental Activities 2016</b>	<b>Governmental Activities 2015</b>
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 11,165,812	\$ 10,979,509	\$ 9,544,343
Capital assets	119,743	120,427	230,233
<b>Total assets</b>	<u>11,285,555</u>	<u>11,099,936</u>	<u>9,774,576</u>
Deferred outflow - pension	665,106	285,376	124,730
<b>Total deferred outflows of resources</b>	<u>665,106</u>	<u>285,376</u>	<u>124,730</u>
Current liabilities	365,497	366,371	263,460
Long-term liabilities	1,655,417	1,098,458	919,740
<b>Total liabilities</b>	<u>2,020,914</u>	<u>1,464,829</u>	<u>1,183,200</u>
Deferred inflow - pension	94,548	121,132	165,593
Deferred inflow - unearned revenue	251,078	291,172	265,891
<b>Total deferred inflows of resources</b>	<u>345,626</u>	<u>412,304</u>	<u>431,484</u>
Net position:			
Net invested in capital assets	119,743	120,427	230,233
Restricted	-	15,219	139,088
Unrestricted	9,464,378	9,372,533	7,915,301
<b>Total net position</b>	<u>\$ 9,584,121</u>	<u>\$ 9,508,179</u>	<u>\$ 8,284,622</u>

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

The following table presents condensed financial information on the Board's Changes in Net Position for the fiscal years ending June 30, 2017, 2016, and 2015.

**Changes in Net Position**

**For the Fiscal Years Ending June 30, 2017, 2016 and 2015**

	<u>Governmental Activities 2017</u>	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<b>Revenues:</b>			
<b>General revenues:</b>			
Interest on investments	\$ 19,653	\$ 20,154	\$ 18,358
<b>Program revenues:</b>			
Inspection fees	3,946,267	5,240,067	5,599,676
Other income	<u>388,740</u>	<u>347,472</u>	<u>374,750</u>
Total revenues	<u>4,354,660</u>	<u>5,607,693</u>	<u>5,992,784</u>
<b>Expenses:</b>			
Governmental Activities			
Regulatory program	<u>4,278,718</u>	<u>4,384,136</u>	<u>4,038,650</u>
Total expenses	<u>4,278,718</u>	<u>4,384,136</u>	<u>4,038,650</u>
Change in net position	75,942	1,223,557	1,954,134
Net position, beginning of year	<u>9,508,179</u>	<u>8,284,622</u>	<u>6,330,488</u>
Net position, end of year	<u>\$ 9,584,121</u>	<u>\$ 9,508,179</u>	<u>\$ 8,284,622</u>

Inspections fees totaled \$3,946,267, \$5,240,067 and \$5,599,676 for the years ended June 30, 2017, 2016 and 2015, respectively. The decrease in inspection fees is due to decline in construction and the activity in the oil fields.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets and deferred outflows exceeded liabilities and deferred inflows for the years ending June 30, 2017 and 2016 by \$9,584,121 and \$9,508,179, respectively.

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

**Financial Analysis of the Government's Funds**

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



**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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

**Capital Asset and Debt Administration**

Capital Assets – The North Dakota State Electrical Board's investment in capital assets, net of related debt for its governmental type activities as of June 30, 2017 and 2016 amount to \$119,743 and \$120,427 (net of accumulated depreciation). This investment in capital assets includes intangible asset for software, furniture and equipment, and leasehold improvements.

	Primary Government Governmental Activities		
	2017	2016	2015
Construction in progress	\$ 13,000	\$ -	\$ 106,168
Leasehold improvements	86,054	93,275	100,496
Furniture and equipment	20,689	27,152	23,570
Intangible asset - software	-	-	-
	\$ 119,743	\$ 120,427	\$ 230,234

**Economic Factors**

The increase in electrical work in prior years is reflected toward the general increase of North Dakota's economy, particularly in the oil industry. The consumer demand for electrical work is projected to decrease due to the oil slowdown that is affecting various aspects of North Dakota's economy in the next biennium.

**Requests for Information**

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$6,781,967	\$6,624,251
Investments	4,320,000	4,320,000
Accounts receivable	47,957	31,840
Interest receivable	3,418	3,418
Inventories	12,470	-
Total current assets	11,165,812	10,979,509
Capital assets (net of accumulated depreciation):		
Construction in progress	13,000	-
Leasehold improvements	86,054	93,275
Furniture and equipment	20,689	27,152
Total capital assets	119,743	120,427
Total assets	11,285,555	11,099,936
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred outflow - pension	665,106	285,376
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	185,490	178,942
Payroll liabilities	65,729	68,371
Compensated absences due within one year	114,278	119,058
Total current liabilities	365,497	366,371
Non-current liabilities:		
Compensated absences due in more than one year	51,239	51,740
Net pension liability	1,604,178	1,046,718
Total non-current liabilities	1,655,417	1,098,458
Total liabilities	2,020,914	1,464,829
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflow - pension	94,548	121,132
Deferred inflow - unearned revenue	251,078	291,172
Total deferred inflow of resources	345,626	412,304
<b>NET POSITION</b>		
Net investment in capital assets	119,743	120,427
Restricted	-	15,219
Unrestricted	9,464,378	9,372,533
Total net position	\$9,584,121	\$9,508,179

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS JUNE 30, 2017 AND 2016**

<b>2017</b>		<u>Program Revenues</u>	
Functions/Programs		Charges for	Net
<u>Governmental Activities:</u>	<u>Expenses</u>	<u>Services</u>	<u>(Expense) Revenue</u>
Regulatory program	<u>\$4,278,718</u>	<u>\$4,335,007</u>	\$ 56,289
General revenues:			
Unrestricted investment earnings			<u>19,653</u>
Total change in net position			75,942
Net position, beginning of year			<u>9,508,179</u>
Net position, end of year			<u><u>\$9,584,121</u></u>

<b>2016</b>		<u>Program Revenues</u>	
Functions/Programs		Charges for	Net
<u>Governmental Activities:</u>	<u>Expenses</u>	<u>Services</u>	<u>(Expense) Revenue</u>
Regulatory program	<u>\$4,384,136</u>	<u>\$5,587,539</u>	\$ 1,203,403
General revenues:			
Unrestricted investment earnings			<u>20,154</u>
Total change in net position			1,223,557
Net position, beginning of year			<u>8,284,622</u>
Net position, end of year			<u><u>\$9,508,179</u></u>

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	General	Undertaking	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,781,967	\$ -	\$ 6,781,967
Investments	4,320,000	-	4,320,000
Accounts receivable	47,957	-	47,957
Interest receivable	3,418	-	3,418
Inventories	12,470	-	12,470
<b>Total assets</b>	<b>\$ 11,165,812</b>	<b>\$ -</b>	<b>\$ 11,165,812</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 185,490	\$ -	\$ 185,490
Payroll liabilities	65,729	-	65,729
<b>Total liabilities</b>	<b>251,219</b>	<b>-</b>	<b>251,219</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow - unearned revenue	251,078	-	251,078
<b>FUND BALANCES</b>			
Nonspendable	12,470	-	12,470
Unassigned	10,651,045	-	10,651,045
<b>Total fund balance</b>	<b>10,663,515</b>	<b>-</b>	<b>10,663,515</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 11,165,812</b>	<b>\$ -</b>	<b>\$ 11,165,812</b>
<b>Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017</b>			
Total fund balance	\$ 10,663,515	\$ -	\$ 10,663,515
Capital assets used in governmental activities	119,743	-	119,743
Deferred outflow - pension	665,106	-	665,106
Liability for compensated absences	(165,517)	-	(165,517)
Liability for net pension	(1,604,178)	-	(1,604,178)
Deferred inflow - pension	(94,548)	-	(94,548)
<b>Net position of governmental activities</b>	<b>\$ 9,584,121</b>	<b>\$ -</b>	<b>\$ 9,584,121</b>

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	General	Undertaking	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,609,032	\$ 15,219	\$ 6,624,251
Investments	4,320,000	-	4,320,000
Accounts receivable	31,840	-	31,840
Interest receivable	3,418	-	3,418
<b>Total assets</b>	<b>\$ 10,964,290</b>	<b>\$ 15,219</b>	<b>\$ 10,979,509</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 178,942	\$ -	\$ 178,942
Payroll liabilities	68,371	-	68,371
Total liabilities	247,313	-	247,313
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow - unearned revenue	291,172	-	291,172
<b>FUND BALANCES</b>			
Restricted for undertaking	-	15,219	15,219
Unassigned	10,425,805	-	10,425,805
Total fund balance	10,425,805	15,219	10,441,024
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 10,964,290</b>	<b>\$ 15,219</b>	<b>\$ 10,979,509</b>
<b>Reconciliation of the Balance Sheet to the Statement of Net Position</b>			
<b>June 30, 2016</b>			
Total fund balance	\$ 10,425,805	\$ 15,219	\$ 10,441,024
Capital assets used in governmental activities	120,427	-	120,427
Deferred outflow - pension	285,376	-	285,376
Liability for compensated absences	(170,798)	-	(170,798)
Liability for net pension	(1,046,718)	-	(1,046,718)
Deferred inflow - pension	(121,132)	-	(121,132)
Net position of governmental activities	<b>\$ 9,492,960</b>	<b>\$ 15,219</b>	<b>\$ 9,508,179</b>

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Undertaking</u>	<u>Total</u>
<b>Revenues:</b>			
Inspection fees	\$ 3,946,267	\$ -	\$ 3,946,267
Master examinations	9,250	-	9,250
Master license	88,283	-	88,283
Journeyman examinations	13,250	-	13,250
Journeyman license	88,738	-	88,738
Class B examination	80	-	80
Class B license	1,060	-	1,060
Apprentice registrations	33,864	-	33,864
Reinstatements	22,985	-	22,985
Sale of code books	8,408	-	8,408
Administration and late fees	45,718	-	45,718
Continuing education and seminars	31,810	-	31,810
Fees	-	687	687
Interest income	19,651	2	19,653
Miscellaneous	44,607	-	44,607
Total revenues	<u>4,353,971</u>	<u>689</u>	<u>4,354,660</u>
<b>Expenditures:</b>			
Salaries and benefits	2,353,983	-	2,353,983
Operating expenses	1,777,951	235	1,778,186
Total expenditures	<u>4,131,934</u>	<u>235</u>	<u>4,132,169</u>
Revenues over expenditures	222,037	454	222,491
<b>Other Financing Sources (Uses):</b>			
Transfers in (out)	15,673	(15,673)	-
Net change in fund balance	237,710	(15,219)	222,491
Fund balance - July 1	<u>10,425,805</u>	<u>15,219</u>	<u>10,441,024</u>
Fund balance - June 30	<u>\$ 10,663,515</u>	<u>\$ -</u>	<u>\$ 10,663,515</u>

**Reconciliation of Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Fund to the Statement of Activities  
For the Fiscal Year Ended June 30, 2017**

Net changes in fund balance	\$ 222,037	\$ 454	\$ 222,491
Depreciation expense	(13,684)	-	(13,684)
Capital outlay	13,000	-	13,000
Increase in deferred outflows	379,730	-	379,730
Decrease in compensated absences liability	5,281	-	5,281
Increase in net pension liability	(557,460)	-	(557,460)
Decrease in deferred inflows	26,584	-	26,584
Change in net position of governmental activities	<u>\$ 75,488</u>	<u>\$ 454</u>	<u>\$ 75,942</u>

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Undertaking</u>	<u>Total</u>
<b>Revenues:</b>			
Inspection fees	\$ 5,240,067	\$ -	\$ 5,240,067
Master examinations	10,350	-	10,350
Master license	82,667	-	82,667
Journeyman examinations	14,250	-	14,250
Journeyman license	103,075	-	103,075
Class B license	1,087	-	1,087
Apprentice registrations	35,546	-	35,546
Reinstatements	26,775	-	26,775
Sale of code books	5,810	-	5,810
Administration and late fees	25,544	-	25,544
Continuing education and seminars	37,558	-	37,558
Fees	-	1,250	1,250
Interest income	20,122	32	20,154
Miscellaneous	3,560	-	3,560
	<u>5,606,411</u>	<u>1,282</u>	<u>5,607,693</u>
<b>Total revenues</b>			
	<u>5,606,411</u>	<u>1,282</u>	<u>5,607,693</u>
<b>Expenditures:</b>			
Salaries and benefits	2,476,282	-	2,476,282
Operating expenses	1,656,116	125,151	1,781,267
	<u>4,132,398</u>	<u>125,151</u>	<u>4,257,549</u>
<b>Total expenditures</b>			
	<u>4,132,398</u>	<u>125,151</u>	<u>4,257,549</u>
Revenues over expenditures	1,474,013	(123,869)	1,350,144
Fund balance - July 1	8,951,792	139,088	9,090,880
	<u>8,951,792</u>	<u>139,088</u>	<u>9,090,880</u>
Fund balance - June 30	<u>\$ 10,425,805</u>	<u>\$ 15,219</u>	<u>\$ 10,441,024</u>

**Reconciliation of Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Fund to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016**

Net changes in fund balance	\$ 1,474,013	\$ (123,869)	\$ 1,350,144
Depreciation expense	(14,030)	-	(14,030)
Capital outlay	10,391	-	10,391
Loss on disposal of capital assets	(106,168)	-	(106,168)
Decrease in deferred outflows	160,646	-	160,646
Increase in compensated absences liability	(23,474)	-	(23,474)
Increase in net pension liability	(198,413)	-	(198,413)
Increase in deferred inflows	44,461	-	44,461
	<u>44,461</u>	<u>-</u>	<u>44,461</u>
Change in net position of governmental activities	<u>\$ 1,347,426</u>	<u>\$ (123,869)</u>	<u>\$ 1,223,557</u>

See Notes to the financial Statements

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

**Government-Wide and Fund Financial Statements**

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

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

**Restricted net position** consists of funds received that are restricted for the specific purpose of the Undertaking fund.

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

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

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

**Interfund Transactions**

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.



**NORTH DAKOTA STATE ELECTRICAL BOARD**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**Fund Accounting Structure**

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Board has two funds, the general fund and undertaking fund. The general fund is used to account for the collection of fees, license renewals and transactions relating to the general operations of providing qualified electricians to install and repair electrical services to the citizens of the state. The undertaking fund accounts for master and class "B" electricians' deposits with the board as an undertaking fund for the faithful performance of all electrical work undertaken. These deposits must be accumulated by the board in a special fund and used for completion of jobs abandoned by electricians.

**Fund Balance Classifications**

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

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

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

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

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

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

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

The Board has set a General Fund minimum balance target at one and a half years of operating expenditures.

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**Basis for Accounting**

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

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

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

**Cash and Cash Equivalents**

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

**Investments**

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

**Inventories**

Inventories consist of code books available for sale to electricians. The code books are valued at cost and are recognized principally using the first in first out method. Generally, the cost of governmental funds inventories is recorded as an expenditure when consumed rather than when purchased.

**Accounts Receivables**

Accounts receivable consist of inspections fees to be collected for jobs completed as of year-end. No allowance for doubtful accounts is recorded for the years ended June 30, 2017 and 2016.

**Capital Assets**

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

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category named *Deferred outflow – pension* which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify for reporting in this category. Accordingly, the item, *deferred revenue – unearned revenue*, is reported as deferred inflow of resources for both the Balance Sheet and Statement of Net Position as these amounts represent unearned inspection revenue of \$133,728 and \$166,432 and unearned license revenue of \$117,350 and \$124,740 at June 30, 2017 and 2016, respectively. The unearned inspection revenues are the result of deposits from electricians held by the State Electrical Board for the future issuance of inspection certificates. The unearned license revenues are the result of the license period overlapping two fiscal years. The portion applicable to the next fiscal year is unearned license revenue in the current fiscal year. The second item, *Deferred Inflow – pension*, represents actuarial differences within NDPERS pension plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Compensated Absences**

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

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

**Pensions**

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

**Estimates**

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

**NOTE 2 DEPOSITS**

**Custodial Credit Risk – Deposits**

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

North Dakota State Electrical Board maintains interest bearing cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000 per financial institution. At June 30, 2017 and 2016, the Board had \$6,809,013 and \$6,655,636, respectively, of deposits that were exposed to custodial credit risk. These deposits were backed by the full faith and credit of the State of North Dakota.

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

**NOTE 3 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2017:

	<u>7/1/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/17</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 13,000	\$ -	\$ 13,000
Capital assets being depreciated:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	61,582	-	-	61,582
Leasehold improvements	108,319	-	-	108,319
	<u>180,901</u>	<u>-</u>	<u>-</u>	<u>180,901</u>
Less accumulated depreciation for:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	34,430	6,463	-	40,893
Leasehold improvements	15,044	7,221	-	22,265
	<u>60,474</u>	<u>13,684</u>	<u>-</u>	<u>74,158</u>
Net investment in capital assets	<u>\$ 120,427</u>	<u>\$ (684)</u>	<u>\$ -</u>	<u>\$ 119,743</u>

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	<u>7/1/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/16</u>
Capital assets not being depreciated:				
Construction in progress	\$ 106,168	\$ -	\$(106,168)	\$ -
Capital assets being depreciated:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	56,731	10,391	(5,540)	61,582
Leasehold improvements	108,319	-	-	108,319
	<u>176,050</u>	<u>10,391</u>	<u>(5,540)</u>	<u>180,901</u>
Less accumulated depreciation for:				
Intangible asset - software	11,000	-	-	11,000
Furniture and equipment	33,161	6,809	(5,540)	34,430
Leasehold improvements	7,823	7,221	-	15,044
	<u>51,984</u>	<u>14,030</u>	<u>(5,540)</u>	<u>60,474</u>
Net investment in capital assets	<u>\$ 230,234</u>	<u>\$ (3,639)</u>	<u>\$(106,168)</u>	<u>\$ 120,427</u>

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 ACCRUED COMPENSATED ABSENCES**

A summary of changes in accrued compensated absences for the year ending June 30, 2017 is as follows:

	Balance 7/1/16	Additions	Reductions	Balance 06/30/17	Due Within One Year
Compensated absences	\$ 170,798	\$113,776	\$(119,057)	\$ 165,517	\$114,278

A summary of changes in accrued compensated absences for the year ending June 30, 2016 is as follows:

	Balance 7/1/15	Additions	Reductions	Balance 06/30/16	Due Within One Year
Compensated absences	\$ 147,323	\$128,962	\$(105,487)	\$ 170,798	\$119,058

**NOTE 5 PENSION PLANS**

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

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

NDPERS is a cost-sharing, multiple-employer defined benefit 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 contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven 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; and one member elected by the retired public employees.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 86 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

***Death and Disability Benefits***

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by 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 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 covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 12 to 25 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, 2017 and 2016, the Employer reported a liability of \$1,604,178 and \$1,046,718 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was based on the Employer's share of covered payroll in the Main System

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was 0.164599% percent, which was an increase of 0.010666% from its proportion measured as of June 30, 2016. At June 30, 2016, the Employer's proportion was 0.153933% percent, which was an increase of 0.020283 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of \$249,406. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,098	\$ (14,853)
Changes of assumptions	147,885	(79,695)
Net difference between projected and actual earnings on pension plan investments	223,806	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	156,327	-
Employer contributions subsequent to the measurement date	<u>112,990</u>	<u>-</u>
Total	<u>\$ 665,106</u>	<u>\$ (94,548)</u>

\$112,990 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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:**

2018	\$ 90,778
2019	90,778
2020	139,601
2021	102,123
2022	34,288



**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

For the year ended June 30, 2016, the Employer recognized pension expense of \$123,652. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 30,367	\$ -
Changes of assumptions	-	(93,258)
Net difference between projected and actual earnings on pension plan investments	-	(22,096)
Changes in proportion and differences between employer contributions and proportionate share of contributions	124,664	(5,778)
Employer contributions subsequent to the measurement date	130,345	-
Total	\$ 285,376	\$ (121,132)

\$130,345 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

<b>Year ended June 30:</b>	
2018	\$ (4,468)
2019	(4,468)
2020	(4,468)
2021	41,191
2022	6,112

***Actuarial Assumptions***

The total pension liability in the July 1, 2016 and 2015 actuarial valuations were determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.00% percent to 20.00 percent including inflation
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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 actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

***Discount rate***

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2017 and 2016. 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, 2016 and July 1, 2015, Actuarial Valuation Reports. 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 June 30, 2017 and 2016. 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, 2017 and 2016.

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate***

The following present the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 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 (7 percent) or 1 percentage point higher (9 percent) than the current rate:

<b>June 30, 2017</b>	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Employer's proportionate share of the net pension liability	<u>\$ 2,275,495</u>	<u>\$ 1,604,178</u>	<u>\$ 1,038,558</u>
<b>June 30, 2016</b>	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Employer's proportionate share of the net pension liability	<u>\$ 1,605,090</u>	<u>\$ 1,046,718</u>	<u>\$ 589,869</u>

***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.

***Payables to the pension plan.***

No amount was payable to the pension plan at fiscal year end.

**NORTH DAKOTA DEFINED CONTRIBUTION RETIREMENT PLAN**

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota Century Code. The Defined Contribution plan covers all employees who elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all employees hired on or after October 1, 2014 through July 31, 2017.

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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

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

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

Contributions are set by state statute and are a percentage of salaries and wages. Employee contributions are 7% and employer contributions are established at 7.12%. The Board paid for 4% of the employee contribution percentage during the fiscal year ended June 30, 2017 and 2016. Employer required contributions totaled \$19,443 and \$10,122 for the years ending June 30, 2017 and 2016, respectively.

**NOTE 6 LEASES**

The Board leases office space under an operating lease. The Board also leased an apartment in Williston, North Dakota, however this lease ended February 28, 2016. Future payments on the lease for office space are as follows:

2018	\$	44,921
2019		44,921

Rental expense was \$61,600 and \$77,554 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 7 FUND BALANCES AND RESTRICTED NET POSITION**

As of June 30, 2017, a summary of the governmental fund balance classifications are as follows:

	<u>General</u>	<u>Undertaking</u>	<u>Total</u>
Non-spendable			
Inventories	\$ 12,470	\$ -	\$ 12,470
Unassigned			
General Fund	<u>10,651,045</u>	<u>-</u>	<u>10,651,045</u>
	<u>\$ 10,663,515</u>	<u>\$ -</u>	<u>\$ 10,663,515</u>

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

As of June 30, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>General</u>	<u>Undertaking</u>	<u>Total</u>
Restricted			
Eletrical repairs	\$ -	\$ 15,219	\$ 15,219
Unassigned			
General Fund	<u>10,425,805</u>	<u>-</u>	<u>10,425,805</u>
	<u>\$ 10,425,805</u>	<u>\$ 15,219</u>	<u>\$ 10,441,024</u>

As of June 30, 2016, \$15,219 of net position is restricted and to be used for electrical repairs.

**NOTE 8 TRANSFERS**

Effective July 1, 2016, the remaining fund balance in the Undertaking fund was approved by the legislature to be used for educational purposes. The Board transferred this amount to the General fund during fiscal year 2017. A summary of interfund transfers for the year ending June 30, 2017 is as follows.

	<u>Transfer To</u>	<u>Transfer From</u>	<u>Total</u>
General	\$ 15,673	\$ -	\$ 15,673
Undertaking	<u>-</u>	<u>(15,673)</u>	<u>(15,673)</u>
	<u>\$ 15,673</u>	<u>\$ (15,673)</u>	<u>\$ -</u>

**NOTE 9 RISK MANAGEMENT**

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

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

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

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

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

**NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. 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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

**NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through November 4, 2017, which is the date these financial statements were available to be issued.

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance with Budget
<b>Revenues:</b>				
Inspection fees	\$4,157,400	\$4,157,400	\$ 3,946,267	\$ (211,133)
Master examinations	8,000	8,000	9,250	1,250
Master license	50,000	50,000	88,283	38,283
Journeyman examinations	15,000	15,000	13,250	(1,750)
Journeyman license	91,000	91,000	88,738	(2,262)
Class B examination	100	100	80	(20)
Class B license	400	400	1,060	660
Apprentice registrations	30,000	30,000	33,864	3,864
Reinstatements	9,000	9,000	22,985	13,985
Sale of code books	9,000	9,000	8,408	(592)
Administration and late fees	13,000	13,000	45,718	32,718
Continuing education and seminars	35,000	35,000	31,810	(3,190)
Interest income	20,000	20,000	19,651	(349)
Miscellaneous	3,000	3,000	44,607	41,607
<b>Total revenues</b>	<b>4,440,900</b>	<b>4,440,900</b>	<b>4,353,971</b>	<b>(86,929)</b>
<b>Expenditures:</b>				
Salaries and benefits	2,607,500	2,607,500	2,353,983	253,517
Operating expenses	1,971,400	1,971,400	1,777,951	193,449
Equipment	207,000	207,000	-	207,000
<b>Total expenditures</b>	<b>4,785,900</b>	<b>4,785,900</b>	<b>4,131,934</b>	<b>653,966</b>
Revenues over expenditures	\$ (345,000)	\$ (345,000)	222,037	\$ 567,037
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	-	-	15,673	(15,673)
Net change in fund balance	<u>\$ (345,000)</u>	<u>\$ (345,000)</u>	237,710	<u>\$ 551,364</u>
Fund balance - July 1			<u>10,425,805</u>	
Fund balance - June 30			<u>\$ 10,663,515</u>	



**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with Budget
<b>Revenues:</b>				
Inspection fees	\$ 4,249,300	\$ 4,249,300	\$ 5,240,067	\$ 990,767
Master examinations	8,000	8,000	10,350	2,350
Master license	50,000	50,000	82,667	32,667
Journeyman examinations	22,000	22,000	14,250	(7,750)
Journeyman license	100,000	100,000	103,075	3,075
Class B examination	100	100	-	(100)
Class B license	400	400	1,087	687
Apprentice registrations	30,000	30,000	35,546	5,546
Reinstatements	7,500	7,500	26,775	19,275
Sale of code books	20,000	20,000	5,810	(14,190)
Administration and late fees	13,000	13,000	25,544	12,544
Continuing education and seminars	42,000	42,000	37,558	(4,442)
Interest income	20,000	20,000	20,122	122
Miscellaneous	4,000	4,000	3,560	(440)
	<u>4,566,300</u>	<u>4,566,300</u>	<u>5,606,411</u>	<u>1,040,111</u>
<b>Expenditures:</b>				
Salaries and benefits	2,477,300	2,477,300	2,476,282	1,018
Operating expenses	2,249,000	2,249,000	1,656,116	592,884
Equipment	85,000	85,000	-	85,000
	<u>4,811,300</u>	<u>4,811,300</u>	<u>4,132,398</u>	<u>678,902</u>
Revenues over expenditures	<u>\$ (245,000)</u>	<u>\$ (245,000)</u>	1,474,013	<u>\$ 361,209</u>
Fund balance - July 1			<u>8,951,792</u>	
Fund balance - June 30			<u>\$ 10,425,805</u>	

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

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.164599%	\$ 1,640,178	\$ 1,658,769	98.88%	70.46%
2016	0.153933%	1,046,718	1,371,360	76.33%	77.15%
2015	0.000000%	848,305	1,125,847	75.35%	72.12%

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

	Statorily required contribution	Contributions in relation to the statorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered-employee payroll
2017	\$ 112,990	\$ (112,990)	\$ -	\$ 1,586,936	7.12%
2016	\$ 120,092	(115,615)	4,477	1,658,769	6.97%
2015	104,165	(97,227)	6,938	1,371,360	7.09%

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

**Notes to Required Supplementary Information**

***Changes of assumptions***

Amounts reported in 2017 and 2016 reflect actuarial assumption changes effective July 1, 2016 and July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**DETAILED STATEMENTS OF REVENUES AND EXPENDITURES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUES:</b>		
Inspection fees	\$ 3,946,267	\$ 5,240,067
Master examinations	9,250	10,350
Master license	88,283	82,667
Journeyman examinations	13,250	14,250
Journeyman license	88,738	103,075
Class B examination	80	-
Class B license	1,060	1,087
Apprentice registrations	33,864	35,546
Reinstatements	22,985	26,775
Sale of code books	8,408	5,810
Administration and late fees	45,718	25,544
Continuing education and seminars	31,810	37,558
Fees	687	1,250
Interest income	19,653	20,154
Miscellaneous	44,607	3,560
Total revenues	<u>4,354,660</u>	<u>5,607,693</u>
<b>EXPENDITURES:</b>		
Salaries - inspectors	1,193,766	1,401,142
Salaries - office	580,189	554,049
Inspection fees to cities	1,076,412	831,516
Travel - fleet vehicles	179,940	228,630
Travel - employees	58,475	85,456
Travel - board members	7,090	7,050
Travel - PLT Committee	718	-
Per diem	10,050	8,900
Payroll taxes	132,246	145,946
Group insurance	242,433	290,467
Pension expense	211,982	230,624
Pension buyout	125,613	-
Office remodel	3,993	5,173
Office rent	39,754	43,446
Apartment/house rent	21,846	34,108
Moving	-	10,000
Postage	21,062	30,732
Printing	26,392	29,192
Telephone	30,949	32,950
Professional fees	54,867	46,678
Supplies	6,874	9,315
Insurance	20,471	5,445
Small equipment	4,351	37,217
Maintenance agreements and repairs	2,690	128,456
Code books and publications	19,743	6,917
Continuing education	3,493	10,434
Education seminars	27,874	22,826
Advertising	1,680	-
Administrative fees	2,670	2,942
Dues & subscriptions	7,603	8,025
Miscellaneous	16,943	9,913
Total expenditures	<u>4,132,169</u>	<u>4,257,549</u>
Revenues over expenditures	<u>\$ 222,491</u>	<u>\$ 1,350,144</u>



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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**

Governor of North Dakota  
The Legislative Assembly  
The North Dakota State Electrical Board  
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major funds of the North Dakota State Electrical Board, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise North Dakota State Electrical Board's basic financial statements and have issued our report thereon dated November 4, 2017.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as #1 in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as #2 in the accompanying schedule of findings and responses to be a significant deficiency.

### **Compliance and Other Matters**

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

### **North Dakota State Electrical Board's Responses to Findings**

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

### **Purpose of this Report**

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



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

November 4, 2017

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**#1 Material Weakness: Journal Entries**

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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

**NORTH DAKOTA STATE ELECTRICAL BOARD**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**#2 Significant Deficiency: Preparation of Financial Statements**

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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