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OLIVER-MERCER MULTIDISTRICT SPECIAL EDUCATION UNIT

AUDIT REPORT

June 30, 2017 and 2016

Oliver-Mercer Multidistrict Special Education Unit
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For The Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Oliver-Mercer Multidistrict Special Education Unit
Hazen, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Oliver-Mercer Multidistrict Special Education Unit, Hazen, North Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Unit's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

INDEPENDENT AUDITOR'S REPORT

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 each major fund of the Oliver-Mercer Multidistrict Special Education Unit, Hazen, North Dakota as of June 30, 2017 and 2016, and the respective changes in financial position 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 Unit's share of net pension liability and employer contributions – ND Teachers' Fund for Retirement on page 38, the Unit's share of net pension liability and employer contributions – ND Public Employees Retirement System on page 39, and budgetary comparison information on pages 40 through 42 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 missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

INDEPENDENT AUDITOR'S REPORT

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oliver-Mercer Multidistrict Special Education Unit, Hazen, North Dakota's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 a report dated March 28, 2018, on our consideration of Oliver-Mercer Multidistrict Special Education Unit'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 Oliver-Mercer Multidistrict Special Education Unit's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
March 28, 2018

Oliver-Mercer Multidistrict Special Education Unit
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 382,941
Intergovernmental Accounts Receivable	9,760
Capital Assets	
Furniture & Equipment	48,583
Less Accumulated Depreciation	(34,720)
Total Capital Assets, Net of Depreciation	13,863
TOTAL ASSETS	406,564
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	702,714
LIABILITIES	
Accounts Payable	7,359
Accrued Salaries & Benefits	172,273
Long-Term Liabilities:	
Net Pension Liability	2,661,707
Total Liabilities	2,841,339
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	44,512
NET POSITION	
Net Investment in Capital Assets	13,863
Unrestricted	(1,790,436)
TOTAL NET POSITION	$ (1,776,573)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Statement of Activities
For the Year Ended June 30, 2017

		Program Revenues		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Functions/Programs				
Governmental Activities				
Special Education Services	$ 1,910,411	$ 187,948	$ 439,591	$ (1,282,872)
Student Support Services	61,434	-	-	(61,434)
School Administration & Support Services	241,902	-	-	(241,902)
Total Primary Government	$ 2,213,747	$ 187,948	$ 439,591	(1,586,208)
General Revenues:				
State Aid				1,354,652
Unrestricted Investment Earnings				518
Total General Revenues				1,355,170
Change in Net Position				(231,038)
Net Position - Beginning of Year				(1,545,535)
Net Position - End of Year				$ (1,776,573)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Balance Sheet - Governmental Funds
June 30, 2017

	Major Fund General
ASSETS	
Cash and Cash Equivalents	$ 382,941
Intergovernmental Accounts Receivable	9,760
TOTAL ASSETS	$ 392,701
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 7,359
Accrued Salaries & Benefits	172,273
Total Liabilities	179,632
Fund Balances:	
Unassigned	213,069
Total Fund Balances	213,069
TOTAL LIABILITIES AND FUND BALANCES	$ 392,701
Total fund balances - governmental funds	$ 213,069
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $48,583, and the accumulated depreciation is $34,720.	13,863
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the govenmental funds balance sheet.	702,714
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(2,661,707)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the govenmental funds balance sheet.	(44,512)
Net position of governmental activities	$ (1,776,573)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	Major Fund General
REVENUES	
Handicapped Tuition	$ 160,192
Interest Income	518
Other Local Revenue	27,756
Handicapped Program Aid	1,365,867
Title IDEA-B Special Education Grant	405,171
Pre-School Program	8,423
Medicaid	14,782
TOTAL REVENUES	1,982,709
EXPENDITURES	
Current:	
Special Education	1,418,074
Psychological Services	79,947
Audiology	683
Speech Pathology	193,194
Medical Services	60
Occupational Therapy	122,688
Other Student Support Services	17,398
Instructional Staff Support Services	13,535
Governance Board	12,096
Support Services - Business	57,130
Special Area Admin Service	142,273
Other Support Services	2,584
Student Transportation Services	30,501
TOTAL EXPENDITURES	2,090,163
NET CHANGE IN FUND BALANCES	(107,454)
Fund Balances - July 1, 2016	320,523
FUND BALANCES - JUNE 30, 2017	$ 213,069

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2017

Net change in fund balances - total governmental funds	$ (107,454)
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay ($7,550) exceeded depreciation expense ($3,631) in the current period.	3,919
Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.	(127,503)
Change in net position of governmental activities	$ (231,038)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 506,449
Intergovernmental Accounts Receivable	9,625
Capital Assets	
Furniture & Equipment	41,033
Less Accumulated Depreciation	(31,089)
Total Capital Assets, Net of Depreciation	9,944
TOTAL ASSETS	526,018
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	494,881
LIABILITIES	
Accounts Payable	11,614
Accrued Salaries & Benefits	183,937
Long-Term Liabilities:	
Net Pension Liability	2,275,552
Total Liabilities	2,471,103
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	95,331
NET POSITION	
Net Investment in Capital Assets	9,944
Unrestricted	(1,555,479)
TOTAL NET POSITION	$ (1,545,535)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Statement of Activities
For the Year Ended June 30, 2016

		Program Revenues		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Functions/Programs				
Governmental Activities				
Special Education Services	$ 1,826,984	$ 202,136	$ 400,230	$ (1,224,618)
Student Support Services	70,588	-	-	(70,588)
School Administration & Support Services	214,144	-	-	(214,144)
Total Primary Government	$ 2,111,716	$ 202,136	$ 400,230	(1,509,350)
General Revenues:				
State Aid				1,298,116
Unrestricted Investment Earnings				677
Total General Revenues				1,298,793
Change in Net Position				(210,557)
Net Position - Beginning of Year				(1,334,978)
Net Position - End of Year				$ (1,545,535)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Balance Sheet - Governmental Funds
June 30, 2016

		Major Fund General
ASSETS		
Cash and Cash Equivalents	$	506,449
Intergovernmental Accounts Receivable		9,625
TOTAL ASSETS	$	516,074
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	11,614
Accrued Salaries & Benefits		183,937
Total Liabilities		195,551
Fund Balances:		
Unassigned		320,523
Total Fund Balances		320,523
TOTAL LIABILITIES AND FUND BALANCES	$	516,074
Total fund balances - governmental funds	$	320,523
Amounts reported for *governmental activities* in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $41,033, and the accumulated depreciation is $31,089.		9,944
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the govenmental funds balance sheet.		494,881
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.		(2,275,552)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the govenmental funds balance sheet.		(95,331)
Net position of governmental activities	$	(1,545,535)

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	Major Fund General
REVENUES	
Handicapped Tuition	$ 192,730
Interest Income	677
Other Local Revenue	9,406
Handicapped Program Aid	1,298,116
Title IDEA-B Special Education Grant	391,610
Pre-School Program	7,924
Other Federal Revenue	696
TOTAL REVENUES	1,901,159
EXPENDITURES	
Current:	
Special Education	1,371,841
Counseling Services	175
Psychological Services	77,550
Audiology	27,989
Speech Pathology	216,947
Medical Services	480
Occupational Therapy	111,735
Physical Therapy	3,434
Other Student Support Services	21,172
Instructional Staff Support Services	17,333
Governance Board	15,338
Support Services - Business	54,428
Special Area Admin Service	146,222
Other Support Services	3,266
Student Transportation Services	32,083
TOTAL EXPENDITURES	2,099,993
NET CHANGE IN FUND BALANCES	(198,834)
Fund Balances - July 1, 2015	519,357
FUND BALANCES - JUNE 30, 2016	$ 320,523

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2016

Net change in fund balances - total governmental funds	$	(198,834)
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay ($2,058) was exceeded by depreciation expense ($2,605) in the current period		(547)
Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.		(11,176)
Change in net position of governmental activities	$	(210,557)

The accompanying notes are an integral part of this statement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Oliver-Mercer Multidistrict Special Education Unit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the Unit's financial statements include all accounts of the Unit's operations. The criteria for including organizations as component units within the Unit's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Unit holds the corporate powers of the organization
- the Unit appoints a voting majority of the organization's board
- the Unit is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Unit
- there is a fiscal dependency by the organization on the Unit

The Unit receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the Unit as a reporting entity and the Unit is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Currently, the Unit has no fiduciary or business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The Unit has no proprietary or fiduciary activities at this time. These statements present each major fund as a separate column on the fund financial statements (the Unit has only one fund); any non-major funds would be aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The Unit has presented the following major fund:

General Fund: The General Fund is the main operating fund of the Unit. This fund is used to account for all financial resources not accounted for in other funds. All general revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are assessments, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balances is provided at year-end.

E. Deposits

In accordance with North Dakota statutes, the Unit maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposits, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

At June 30, 2017, and 2016, the carrying amounts of the Unit's deposits were $382,692, and $506,199, respectively. The bank balances of these deposits as of June 30, 2017 and 2016 were $404,351 and $602,550, respectively. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, $250,000 was covered by Federal Depository Insurance and $154,351 was collateralized with securities held by the pledging financial institutions' agency not in the Unit's name for the year ended June 30, 2017. Of the bank balances, $250,000 was covered by Federal Depository Insurance and $352,550 was collateralized with securities held by the pledging financial institutions' agency not in the Unit's name for the year ended June 30, 2016. During the years ended June 30, 2017, and 2016, the board reviewed pledges semi-annually as required by state law.

Credit Risk: The Unit may invest idle funds as authorized in North Dakota Statutes, as follows:
(a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
(b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
(c) Certificates of deposit fully insured by the federal deposit insurance corporation.
(d) Obligations of the state.

Concentration of credit risk: The Unit does not have a limit on the amount the Unit may invest in any one issuer.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets/Capital Outlays

Capital assets, which currently include furniture and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of $1,000 or more (individually or collectively) and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for the furniture and equipment range from three to seven years.

G. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Unit board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H. 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.

I. 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 – the Unit's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removed 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – This classification reflects the amounts constrained by the Unit's "intent" to be used for special purposes but are neither restricted nor committed. The board and director have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

J. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of 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 resources (expense/expenditure) until then. 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 8 for additional information.

K. Pensions

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

NOTE 2 CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits as well as petty cash.

NOTE 3 INTERGOVERNMENTAL ACCOUNTS RECEIVABLE

Intergovernmental accounts receivable consists of final reimbursements due the Unit from the State of North Dakota and other school districts for expenses incurred before June 30.

NOTE 4 ACCOUNTS PAYABLE

Accounts payable consists of amounts owing on open account to individuals and organizations for goods and services received prior to June 30.

NOTE 5 ACCRUED SALARIES AND BENEFITS

This payable consists of amounts owed to individuals for services performed prior to June 30.

NOTE 6 COMPENSATED ABSENCES

Oliver-Mercer Multidistrict Special Education Unit had no material compensated absences (sick leave and vacation) outstanding at year-end. Since the majority of the employees are teachers, it is normal for them to work only nine months of the calendar year. Any time due to them is taken by the end of the Unit year or paid out in May.

NOTE 7 CAPITAL ASSETS

The following is a summary of changes in capital assets:

	Capital Assets	Accumulated Depreciation
Balance, June 30, 2015	$ 38,975	$ 28,484
Purchases, Fiscal Year 2016	2,058	-
Disposals, Fiscal Year 2016	-	-
Depreciation Expense, Fiscal Year 2016	-	2,605
Balance, June 30, 2016	41,033	31,089
Purchases, Fiscal Year 2017	7,550	-
Disposals, Fiscal Year 2017	-	-
Depreciation Expense, Fiscal Year 2017	-	3,631
Balance, June 30, 2017	$ 48,583	$ 34,720

Depreciation has been reported in the governmental statements of activities as Special Education Services.

NOTE 8 DEFERRED OUTFLOWS AND INFLOWS OF REOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2017 and 2016, are as follows:

	2017	2016
Deferred Outflows of Resources		
Derived from pension - TFFR	$ 558,196	$ 427,551
Derived from pension - NDPERS	144,518	67,330
Total	$ 702,714	$ 494,881
Deferred Inflows of Resources		
Derived from pension - TFFR	$ 10,646	$ 22,623
Derived from pension - NDPERS	33,866	72,708
Total	$ 44,512	$ 95,331

Note 9 of the financial statements contains details of the pension plans.

NOTE 9 PENSION PLANS

2016 Pension Plans

1. 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 must 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 or 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.

NOTE 9 PENSION PLANS (Continued)

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 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.

NOTE 9 PENSION PLANS (Continued)

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

At June 30, 2016, the Unit reported a liability of $2,006,211 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Unit's proportion of the net pension liability was based on the Unit's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Unit's proportion was 0.153397 percent which was an increase of 0.006242 percent from its proportion measures as of July 1, 2014.

For the year ended June 30, 2016, the Unit recognized pension expense of $143,420. At June 30, 2016, the Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,147	$ -
Changes of assumptions	225,263	-
Net difference between projected and actual earnings on pension plan investments	-	22,623
Changes in proportion and differences between employer contributions and proportionate share of contributions	62,001	-
Employer contributions subsequent to the measurement date (see below)	127,140	-
Total	$ 427,551	$ 22,623

$127,140 reported as deferred outflows of resources related to pensions resulting from Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

For the year ended June 30,	
2017	$ 33,342
2018	33,342
2019	33,342
2020	78,991
2021	50,410
Thereafter	48,359

NOTE 9 PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the July 1, 2015 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 assumption used in the July 1, 2015, funding actuarial valuations for TFFR.

As a result of April 30, 2015 actuarial experiences 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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

NOTE 9 PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015, 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 June 30, 2015. 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, 2015. The discount rate used to measure the total pension liability changed from 8 percent to 7.75 percent based on the investment return assumption changes as a result of the April 30, 2015 actuarial experience study.

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

The following presents the Unit's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (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	$ 2,651,302	$ 2,006,211	$ 1,468,218

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.

2. North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

NOTE 9 PENSION PLANS (Continued)

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

NOTE 9 PENSION PLANS (Continued)

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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

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

At June 30, 2016, the Unit reported a liability of $269,341 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Unit's proportion of the net pension liability was based on the Unit's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the Unit's proportion was 0.039610 percent which was a decrease of .001762 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the Unit recognized pension expense of $23,284. At June 30, 2016, the Unit 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	$ 7,814	$ -
Changes of assumptions	-	23,997
Net difference between projected and actual earnings on pension plan investments	31,122	36,808
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,903
Employer contributions subsequent to the measurement date (see below)	28,394	-
Total	$ 67,330	$ 72,708

NOTE 9 PENSION PLANS (Continued)

$28,394 reported as deferred outflows of resources related to pensions resulting from Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

For the year ended June 30,	
2017	$ (9,684)
2018	(9,684)
2019	(9,684)
2020	2,065
2021	(6,792)
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.50% per annum
Investment rate of return	8.00%, 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 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, 2015, 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.

NOTE 9 PENSION PLANS (Continued)

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%	1.52%
International Fixed Income	5%	0.45%
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, 2015. 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, 2015, 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 June 30, 2015. 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, 2015.

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

The following presents the Unit's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$ 413,021	$ 269,341	$ 151,785

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 9 PENSION PLANS (Continued)

2017 Pension Plans

1. 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 must 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 or 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.

NOTE 9 PENSION PLANS (Continued)

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 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.

NOTE 9 PENSION PLANS (Continued)

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

At June 30, 2017, the Unit reported a liability of $2,248,517 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Unit's proportion of the net pension liability was based on the Unit's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2016, the Unit's proportion was 0.153476 percent which was an increase of 0.000079 percent from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017, the Unit recognized pension expense of $220,071. At June 30, 2017, the Unit 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	$ 10,620	$ 10,646
Changes of assumptions	187,816	-
Net difference between projected and actual earnings on pension plan investments	186,913	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	52,460	-
Employer contributions subsequent to the measurement date (see below)	120,387	-
Total	$ 558,196	$ 10,646

$120,387 reported as deferred outflows of resources related to pensions resulting from Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pensions 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:

For the year ended June 30,	
2018	$ 79,829
2019	79,829
2020	125,502
2021	96,906
2022	46,736
Thereafter	(1,641)

NOTE 9 PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the July 1, 2016 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 assumption used in the July 1, 2016, funding actuarial valuations for TFFR.

As a result of April 30, 2015 actuarial experiences 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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	7.3%
Global Fixed Income	23%	0.9%
Global Real Assets	18%	5.3%
Cash Equivalents	1%	0.0%

NOTE 9 PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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, 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 June 30, 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, 2016.

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

The following presents the Unit's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (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	$ 2,916,496	$ 2,248,517	$ 1,692,154

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.

2. North Dakota Public Employees Retirement System (Main System)

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

NOTE 9 PENSION PLANS (Continued)

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

NOTE 9 PENSION PLANS (Continued)

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, 2017, the Unit reported a liability of $413,190 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Unit's proportion of the net pension liability was based on the Unit's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2016, the Unit's proportion was 0.042396 percent which was an increase of 0.002786 percent from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017, the Unit recognized pension expense of $55,513. At June 30, 2017, the Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,207	$ 3,826
Changes of assumptions	38,091	20,527
Net difference between projected and actual earnings on pension plan investments	57,646	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,880	9,513
Employer contributions subsequent to the measurement date (see below)	27,694	-
Total	$ 144,518	$ 33,866

$27,694 reported as deferred outflows of resources related to pensions resulting from Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

NOTE 9 PENSION PLANS (Continued)

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

For the year ended June 30,	
2018	$ 14,655
2019	14,655
2020	27,231
2021	17,748
2022	8,669
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.50% per annum
Investment rate of return	8.00%, 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 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%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

NOTE 9 PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 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, 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 June 30, 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, 2016.

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

The following presents the Unit's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$ 586,103	$ 413,190	$ 267,503

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 10 RISK MANAGEMENT

The Special Education Unit 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. During the mid-1980's, the Unit was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state 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. All members paid an additional charge the first year they joined to help capitalize the NDIRF. In 1991, the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to the Unit. The Unit pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of $2,000,000 per occurrence. There have been no losses that exceeded the coverage in the last three years.

The Unit continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance.

REQUIRED
SUPPLEMENTARY INFORMATION

OLIVER-MERCER MULTIDISTRICT SPECIAL EDUCATION UNIT
Required Supplementary Information
For the Year Ended June 30, 2017

Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years *

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.153476%	0.153397%	0.147155%
Employer's proportionate share of the net pension liability (asset)	$ 2,248,517	$ 2,006,211	$ 1,541,924
Employer's covered-employee payroll	$ 997,173	$ 943,552	$ 853,576
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	59.2%	62.1%	66.6%

* Complete data for this schedule is not available prior to 2015.

Schedule of Employer Contributions
ND Teachers' Fund for Retirement
Last 10 Fiscal Years *

	2017	2016	2015
Statutorily required contribution	$ 127,140	$ 120,297	$ 91,759
Contributions in relation to the statutorily required contribution	$ (127,140)	$ (120,297)	$ (91,759)
Contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered-employee payroll	$ 997,173	$ 943,552	$ 853,576
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%

* Complete data for this schedule is not available prior to 2015.

Data reported is measured as of 7/1/2016, 7/1/2015 and 7/1/2014.

OLIVER-MERCER MULTIDISTRICT SPECIAL EDUCATION UNIT
Required Supplementary Information
For the Year Ended June 30, 2017

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.042396%	0.039610%	0.041372%
Employer's proportionate share of the net pension liability (asset)	$ 413,190	$ 269,341	$ 262,597
Employer's covered-employee payroll	$ 427,255	$ 352,873	$ 348,512
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

* Complete data for this schedule is not available prior to 2015.

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2017	2016	2015
Statutorily required contribution	$ 30,932	$ 26,804	$ 24,814
Contributions in relation to the statutorily required contribution	$ 28,394	$ (25,514)	$ (24,814)
Contribution deficiency (excess)	$ 2,538	$ 1,290	$ -
Employer's covered-employee payroll	$ 427,255	$ 352,873	$ 348,512
Contributions as a percentage of covered-employee payroll	6.65%	7.60%	7.12%

* Complete data for this schedule is not available prior to 2015.

Data reported is measured as of 7/1/2016, 7/1/2015 and 7/1/2014.

 See independent auditor's report and notes to financial statements.

Oliver-Mercer Multidistrict Special Education Unit
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2017

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Handicapped Tuition	$ 183,274	$ 183,274	$ 160,192	$ (23,082)
Interest Income	500	500	518	18
Other Local Revenue	5,250	5,250	27,756	22,506
Handicapped Program Aid	1,353,443	1,353,443	1,365,867	12,424
Title IDEA-B Special Education Grant	405,171	405,171	405,171	-
Pre-School Program	8,423	8,423	8,423	-
Medicaid	9,000	9,000	14,782	5,782
TOTAL REVENUES	1,965,061	1,965,061	1,982,709	17,648
EXPENDITURES				
Current:				
Special Education	1,519,125	1,519,125	1,418,074	101,051
Counseling Services	500	500	-	500
Psychological Services	84,562	84,562	79,947	4,615
Audiology	8,734	8,734	683	8,051
Speech Pathology	193,195	193,195	193,194	1
Medical Services	3,500	3,500	60	3,440
Occupational Therapy	122,883	122,883	122,688	195
Physical Therapy	4,000	4,000	-	4,000
Other Student Support Services	21,460	21,460	17,398	4,062
Instructional Staff Support Services	15,000	15,000	13,535	1,465
Governance Board	8,170	8,170	12,096	(3,926)
Support Services - Business	58,523	58,523	57,130	1,393
Special Area Admin Service	156,365	156,365	142,273	14,092
Other Support Services	4,750	4,750	2,584	2,166
Student Transportation Services	27,500	27,500	30,501	(3,001)
TOTAL EXPENDITURES	2,228,267	2,228,267	2,090,163	138,104
NET CHANGE IN FUND BALANCES	(263,206)	(263,206)	(107,454)	155,752
Fund Balances - July 1, 2016	320,523	320,523	320,523	-
FUND BALANCES - JUNE 30, 2017	$ 57,317	$ 57,317	$ 213,069	$ 155,752

The accompanying notes are an integral part of this statement.

Oliver-Mercer Multidistrict Special Education Unit
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Handicapped Tuition	$ 254,111	$ 254,111	$ 192,730	$ (61,381)
Interest Income	500	500	677	177
Other Local Revenue	15,000	15,000	9,406	(5,594)
Handicapped Program Aid	1,315,193	1,315,193	1,298,116	(17,077)
Title IDEA-B Special Education Grant	391,610	391,610	391,610	-
Pre-School Program	7,924	7,924	7,924	-
Medicaid	5,000	5,000	-	(5,000)
Other Federal Revenue	-	-	696	696
TOTAL REVENUES	1,989,338	1,989,338	1,901,159	(88,179)
EXPENDITURES				
Current:				
Special Education	1,534,178	1,534,178	1,371,841	162,337
Counseling Services	500	500	175	325
Psychological Services	83,133	83,133	77,550	5,583
Audiology	34,541	34,541	27,989	6,552
Speech Pathology	220,555	220,555	216,947	3,608
Medical Services	3,500	3,500	480	3,020
Occupational Therapy	112,784	112,784	111,735	1,049
Physical Therapy	3,500	3,500	3,434	66
Other Student Support Services	17,836	17,836	21,172	(3,336)
Instructional Staff Support Services	17,500	17,500	17,333	167
Governance Board	16,150	16,150	15,338	812
Support Services - Business	54,746	54,746	54,428	318
Special Area Admin Service	150,209	150,209	146,222	3,987
Other Support Services	7,250	7,250	3,266	3,984
Student Transportation Services	42,000	42,000	32,083	9,917
TOTAL EXPENDITURES	2,298,382	2,298,382	2,099,993	198,389
NET CHANGE IN FUND BALANCES	(309,044)	(309,044)	(198,834)	110,210
Fund Balances - July 1, 2015	519,357	519,357	519,357	-
FUND BALANCES - JUNE 30, 2016	$ 210,313	$ 210,313	$ 320,523	$ 110,210

 The accompanying notes are an integral part of this statement.

NOTE 1 LEGAL COMPLIANCE - BUDGETS

The business manager prepares the special education unit budget on the modified accrual basis of accounting. The board reviews the budget, may make revisions and approves it. The board must submit the budget to the superintendent of public instruction for approval. The budget includes proposed expenditures and the means of financing them. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated balance at year-end.

NOTE 2 EXPENSES IN EXCESS OF BUDGET

For the year ended June 30, 2017, two individual line items were over budget, but as a whole the expenses were under budget. No remedial action is anticipated.

For the year ended June 30, 2016, one individual line item was over budget, but as a whole the expenses were under budget. No remedial action is anticipated.

NOTE 3 CHANGES OF ASSUMPTIONS – ND TEACHER'S FUND FOR RETIREMENT

Amounts reported in 2016 reflect the following actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study dated April 30, 2015.

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

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

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

NOTE 4 CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

Oliver- Mercer Multidistrict Special Educaiton Unit
Schedule of Expenditures of Federal Awards
For The Years Ended June 30, 2017 and 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures 2017	2016	Total
U.S. DEPARTMENT OF EDUCATION:					
Passed through the State Department of Public Instruction:					
Special Education Cluster					
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	$ 405,171	$ 392,306	$ 797,477
Special Education - Preschool Grants (IDEA Preschool)	84.173	N/A	8,423	7,924	16,347
Total Expenditures of Federal Awards			$ 413,594	$ 400,230	$ 813,824

See accountant's report.

NOTE 1 <u>PURPOSE OF SCHEDULE</u>

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

<u>A. Basis of Presentation</u>

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Oliver-Mercer Multidistrict Special Education received no nonmonetary federal assistance in the form of food commodities during the years ended June 30, 2017 and 2016. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

<u>B. Major Programs</u>

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was $750,000.

<u>C. Reporting Entity</u>

The schedule includes all federal financial assistance programs administered by the organization.

<u>D. Basis of Accounting</u>

Federal financial assistance expenditures included in the schedule are reported using the modified accrual basis of accounting.

<u>E. Elections</u>

The Unit has not elected to use the 10 percent de minimis indirect cost rate.

HAGA KOMMER
CERTIFIED PUBLIC ACCOUNTANTS

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

Governing Board
Oliver-Mercer Multidistrict Special Education Unit
Hazen, 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 major fund of the Oliver-Mercer Multidistrict Special Education Unit as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Oliver-Mercer Multidistrict Special Education Unit's basic financial statements and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oliver-Mercer Multidistrict Special Education Unit'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 the Oliver-Mercer Multidistrict Special Education Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unit'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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies 2017-001 and 2017-002 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oliver-Mercer Multidistrict Special Education Unit'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*.

Oliver-Mercer Multidistrict Special Education Unit's Response to Findings

The Oliver-Mercer Multidistrict Special Education Unit's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oliver-Mercer Multidistrict Special Education Unit'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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
March 28, 2018

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

Governing Board
Oliver-Mercer Multidistrict Special Education Unit
Hazen, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Oliver-Mercer Multidistrict Special Education Unit's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Oliver-Mercer Multidistrict Special Education Unit's major federal programs for the years ended June 30, 2017 and 2016. Oliver-Mercer Multidistrict Special Education Unit's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Oliver-Mercer Multidistrict Special Education Unit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Oliver-Mercer Multidistrict Special Education Unit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Oliver-Mercer Multidistrict Special Education Unit's compliance.

Opinion on Each Major Federal Program

In our opinion, Oliver-Mercer Multidistrict Special Education Unit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2017 and 2016.

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

Report on Internal Control Over Compliance

Management of Oliver-Mercer Multidistrict Special Education Unit 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 Oliver-Mercer Multidistrict Special Education Unit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oliver-Mercer Multidistrict Special Education Unit's 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 a 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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
March 28, 2018

Section I – Summary of Auditor's Results

<u>Financial Statements</u>

Type of auditor's report issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified

<u>Internal control over financial reporting:</u>

Material weaknesses identified?	Yes
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

<u>Federal Awards</u>

<u>Internal control over major federal programs:</u>

Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516 (a)?	No

Identification of major federal programs:

<u>Special Education Cluster</u>
84.027 - Special Education – Grants to States (IDEA, Part B)
84.173 - Special Education – Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish Type A and Type B programs?	$750,000
Auditee qualified as a low-risk auditee?	No

Section II – Financial Statement Findings

Material Weaknesses

Finding 2017-001: Segregation of Duties

Condition – The Unit has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the Unit, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the Unit's operations.

Management Response – The board is aware of the limitations of the small staff but additional staff is not feasible.

Finding 2017-002: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the Unit’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation. Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the bookkeeper.

Effect – The Unit has elected to have the auditors complete the full disclosure financial statements in conformity with *Governmental Accounting Standards Board* statements.

Recommendation – The Unit should acquire knowledge of current accounting principles and required financial statement disclosures and prepare annual financial statements in conformity with *Governmental Accounting Standards Board* statements.

Management Response – It is not cost effective for the Unit to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements and they accept the degree of risk association with the Unit not preparing its own financial statements.

Section III – Federal Award Findings

No matters were reported.

Prior Audit Findings – Financial Statement Findings

Material Weaknesses

Finding 2015-001: Segregation of Duties

Condition – The Unit has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the Unit, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the Unit's operations.

Management Response – The board is aware of the limitations of the small staff but additional staff is not feasible.

Status of Finding – The finding is repeated in the current year. See 2017-001.

Finding 2015-002: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the Unit's auditors and this included the implementation of GASB Statement No. 68.

Criteria – Complete and accurate presentation of the financial statements in conformity with *Governmental Accounting Standards Board* statements is required. This includes implementation of new accounting standards issued.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation. Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the bookkeeper. Implementation of GASB Statement No. 68 relating to pensions also requires a significant amount of time and research.

Effect – The Unit has elected to have the auditors complete the full disclosure financial statements in conformity with *Governmental Accounting Standards Board* statements.

Recommendation – The Unit should acquire knowledge of current accounting principles and required financial statement disclosures and prepare annual financial statements in conformity with *Governmental Accounting Standards Board* statements.

Management Response – It is not cost effective for the Unit to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements and they accept the degree of risk association with the Unit not preparing its own financial statements or implementing GASB Statement No. 68.

Status of Finding – The finding is repeated in the current year. See 2017-002.

Prior Audit Findings – Federal Audit Findings

No matters were reported.