LONETREE SPECIAL EDUCATION UNIT
HARVEY, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the President and Board Members
Lonetree Special Education Unit
Harvey, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Lonetree Special Education Unit (Lonetree or the Unit) as of and for the year ended June 30, 2018, 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.

Make Every Day Count | www.bradymartz.com

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Lonetree Special Education Unit as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 13 to the financial statements, Lonetree Special Education Unit adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual – General Fund, Schedules of Employer Contributions - Pension, Schedules of Employer's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions – OPEB, Schedule of Employer's Proportionate share of Net OPEB Liability, and Notes to Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Make Every Day Count | www.bradymartz.com

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated March 5, 2019, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Unit's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unit's internal control over financial reporting and compliance.

Brady Martz

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

March 5, 2019

Make Every Day Count | www.bradymartz.com

LONETREE SPECIAL EDUCATION UNIT
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS		
Current assets		
Cash and cash equivalents	$	59,883
Investments		64,910
Due from other governments		4,540
Total current assets		129,333
Capital assets		
Building and equipment		103,829
Less: accumulated depreciation		(100,435)
Total capital assets, net of accumulated		3,394
TOTAL ASSETS		132,727
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension		136,948
Deferred outflows - OPEB		1,644
TOTAL DEFERRED OUTFLOWS OF RESOURCES		138,592
LIABILITIES		
Current liabilities		
Accounts payable		119
Long-term liabilities		
Net pension liability		463,841
Net OPEB liability		6,405
Total long-term liabilities		470,246
TOTAL LIABILITIES		470,365
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension		15,806
Deferred inflows - OPEB		414
TOTAL DEFERRED INFLOWS OF RESOURCES		16,220
NET POSITION		
Net investment in capital assets		3,394
Unrestricted		(218,660)
TOTAL NET POSITION (DEFICIT)	$	(215,266)

SEE NOTES TO THE FINANCIAL STATEMENTS

LONETREE SPECIAL EDUCATION UNIT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenue		Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction:				
Special education	$ 17,909	$ 188,711	$ 10,650	$ 181,452
Support services:				
Pupil services	422,795	-	262,077	(160,718)
Instructional staff services	47,855	-	28,457	(19,398)
Administration services	143,106	-	85,098	(58,008)
Operations and maintenance	7,748	-	-	(7,748)
Unallocable depreciation	1,073	-	-	(1,073)
Total support services	622,577	-	375,632	(246,945)
TOTAL GOVERNMENTAL ACTIVITIES	$ 640,486	$ 188,711	$ 386,282	$ (65,493)

General revenues:	
State per pupil aid	17,909
Interest income and other revenues	1,731
Total general revenues	19,640
Change in net position	(45,853)
Net position (deficit) - beginning of year, as previously reported	(163,983)
GASB 75 adjustment (see note 13)	(5,430)
Net position (deficit) - beginning of year, restated	(169,413)
Net position (deficit) - end of year	$ (215,266)

SEE NOTES TO THE FINANCIAL STATEMENTS

LONETREE SPECIAL EDUCATION UNIT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

		General Fund
ASSETS		
Cash and cash equivalents	$	59,883
Investments		64,910
Due from other governments		4,540
TOTAL ASSETS	$	129,333
LIABILITIES		
Accounts payable	$	119
FUND BALANCES		
Unassigned		129,214
TOTAL LIABILITIES AND FUND BALANCES	$	129,333

SEE NOTES TO THE FINANCIAL STATEMENTS

LONETREE SPECIAL EDUCATION UNIT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balance, governmental funds	$	129,214
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		3,394
Deferred outflows relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, not reported in the governmental funds.		136,948
Deferred outflows relating to the OPEB liability in the governmental activities are not financial resources and, therefore, not reported in the governmental funds.		1,644
Long-term liabilities are not due and payable in the current year and therefore, are not recorded as liabilities in the governmental funds:		
Net pension liability		(463,841)
Net OPEB liability		(6,405)
Deferred inflows relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, not reported in the governmental funds.		(15,806)
Deferred inflows relating to the OPEB liability in the governmental activities are not financial resources and, therefore, not reported in the governmental funds.		(414)
Total net position (deficit) of governmental activities	$	(215,266)

SEE NOTES TO THE FINANCIAL STATEMENTS

LONETREE SPECIAL EDUCATION UNIT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund
REVENUES	
Local sources	$ 188,711
State sources	17,909
Federal sources	386,283
Other sources	1,731
TOTAL REVENUES	594,634
EXPENDITURES	
Instruction:	
Special education	51,413
Support services:	
Pupil services	412,660
Instructional staff services	9,339
School administration services	138,308
Operations and maintenance	7,748
Total support services	568,055
TOTAL EXPENDITURES	619,468
Net change in fund balance	(24,834)
Fund balance - beginning	154,048
Fund balance - ending	$ 129,214

SEE NOTES TO THE FINANCIAL STATEMENTS

LONETREE SPECIAL EDUCATION UNIT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds:	$	(24,834)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets with a cost greater than $5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		(1,073)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Net increase in net pension liability		(31,113)
Net decrease in net OPEB liability		24
Changes in deferred outflows and inflows of resources relating to net pension liability		10,912
Changes in deferred outflows and inflows of resources relating to net OPEB liability		231
Change in net position of governmental activities	$	(45,853)

SEE NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF LONETREE SPECIAL EDUCATION UNIT AND REPORTING ENTITY

Lonetree Special Education Unit provides special education services to School Districts in and around the city of Harvey, North Dakota. Lonetree's financial statements include the accounts of all of its operations.

Reporting entity – The accompanying financial statements present the activities of the Lonetree Special Education Unit. The Unit has considered all potential component units for which the Unit is financially accountable and other organizations for which the nature and significance of their relationships with the Unit such that exclusion would cause the Unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organizations governing body and (1) the ability of the Lonetree Special Education Unit to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on Lonetree Special Education Unit.

Based on the above criteria, Lonetree Special Education Unit has no component units included in its report.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lonetree Special Education Unit's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation

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

<u>Government-wide Financial Statements</u>:

The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements display information about Lonetree Special Education Unit as a whole.

The Statement of Net Position presents the financial condition of the governmental activities of the Unit at year-end.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to recipients for goods or services offered by the program, or grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Unit.

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

Fund Financial Statements:

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

Fund accounting – The Unit's funds consist of the following:

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

General fund – This fund is the general operating fund of the Unit. It accounts for all financial resources except those required to be accounted for in another fund.

Measurement Focus and Basis of Accounting

Measurement Focus

Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Unit are included in the Statement of Net Position.

Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

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

<u>Basis of Accounting</u>

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

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

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

Revenues-Exchange and Non-Exchange Transactions

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

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

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

Major revenue sources susceptible to accrual include intergovernmental revenues.

Expenses and Expenditures

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

Use of Estimates

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

Cash and Cash Equivalents

For purposes of reporting cash flows, Lonetree Special Education Unit considers all investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist of certificates of deposit with an original maturity of greater than 3 months. Certificates of deposit are recorded at cost, which approximates market value. North Dakota state statute authorizes the Unit to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) Obligations of the state, e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

Capital Assets

Capital assets include property and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Unit as assets with an initial, individual cost of $5,000 or more. Such assets are recorded at cost or estimated historical cost. Donated capital assets are recorded at estimated acquisition at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	20 Years
Equipment	5-20 Years

Payables and Long-term Obligations

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

Net Position

Net position represents the difference between assets, deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of the remaining undepreciated cost of the asset less the outstanding debt associated with the purchase or construction of the related asset. Net position is reported as restricted when external creditors, grantors, or other governmental organizations impose specific restrictions on the Unit. External restrictions may be imposed through state or local laws, and grant or contract provisions.

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. These classifications are as follows:

Nonspendable – This classification reflects the amounts that are not in spendable form, such as inventory and prepaid items. The Unit has no funds currently classified as nonspendable.

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. The Unit has no funds currently classified as Restricted.

Committed – These amounts consist of internally imposed constraints established by Resolution of the Board. The Unit has no funds currently classified as Committed.

Assigned – This classification reflects the amount constrained by the Unit's "intent" to be used for specific purposes, but are neither restricted nor committed. These constraints are established by the Board and/or management. The Unit has no funds currently classified as Assigned.

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.

The Unit has classified the spendable fund balance as Unassigned and considers each to have been spent when expenditures are incurred.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. Lonetree Special Education Unit has two items reported on the statement of net position as deferred outflows, one which represents actuarial differences within the NDPERS and TFFR pension plans, and another that represents the actuarial differences within the NDPERS OPEB liability. See Notes 9 and 10 for more details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Lonetree Special Education Unit has two items reported on the statement of net position as deferred inflows, one which represents the actuarial differences within the NDPERS and TFFR pension plans as well as amounts paid to the plans after the measurement date, and another which represents the actuarial differences within the NDPERS OPEB liability as well as amounts paid to the plan after the measurement date. See Notes 9 and 10 for more details.

Pensions

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

Other Post Employment Benefits (OPEB)

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

Implementation of New Accounting Principle

Lonetree Special Education Unit implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during the year ended June 30, 2018. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to state and local government employers. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NOTE 3 DEPOSITS AND INVESTMENTS

In accordance with North Dakota statutes, the Unit maintains deposits at the 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 deposit, 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, 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 body and bonds issued by another state of the United States or such other securities approved by the banking board.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Unit will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. As of June 30, 2018, the Unit’s entire balance of deposits at financial institutions is covered by the FDIC (Federal Deposit Insurance Corporation).

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets				
Equipment	$ 30,869	$ -	$ -	$ 30,869
Building	72,960	-	-	72,960
Total capital assets	103,829	-	-	103,829
Less accumulated depreciation for				
Equipment	30,868	-	-	30,868
Building	68,494	1,073	-	69,567
Total accumulated depreciation	99,362	1,073	-	100,435
Governmental activities capital assets, net	$ 4,467	$ (1,073)	$ -	$ 3,394

Depreciation was charged to the unallocable deprecation governmental function in the Statement of Activities

NOTE 5 CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2018, the following changes occurred in liabilities reported in long-term liabilities:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Net pension liability *	$ 432,728	$ 184,880	$ (153,767)	$ 463,841
Net OPEB liability **	6,429	2,191	(2,215)	6,405
Total	$ 439,157	$ 187,071	$ (155,982)	$ 470,246

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

** See Note 10 for more information on the net OPEB liability. The general fund would liquidate any liability owed.

NOTE 6 ECONOMIC DEPENDENCY

Lonetree Special Education Unit receives all of its support from federal and state governments, as well as funding from local districts. A significant reduction in the level of this support, if this were to occur, would have a material effect on Lonetree's services.

NOTE 7 FIDUCIARY FUNDS

Revenues related to handicapped programs and state tuition are collected by Lonetree Special Education Unit and subsequently disbursed by the Unit to the various school districts. For the year ending June 30, 2018, a total of $17,909 was collected, with all of the funds being disbursed as of year-end.

NOTE 8 RISK MANAGEMENT

Lonetree Special Education Unit is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

Lonetree Special Education Unit also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Unit pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period.

The State Bonding Fund currently provides the Unit with blanket fidelity bond coverage in the amount of $181,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Lonetree Special Education Unit participates in North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from the above risks, have not exceeded insurance coverage in any of the past three fiscal periods.

NOTE 9 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to these plans follow:

NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, Lonetree Special Education Unit reported a liability of $325,916 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2017, the Employer's proportion was 0.02373 percent, which was a decrease of 0.0006 percent from its proportionate measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of $31,034. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,250	$ (3,558)
Changes of assumptions	23,230	-
Net difference between projected and actual earnings on pension plan investments	4,502	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,099	(8,464)
Employer contributions subsequent to the measurement date	27,333	-
Total	$ 63,414	$ (12,022)

$27,333 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30:	
2019	$ 5,286
2020	12,348
2021	7,927
2022	168
2023	(263)
Thereafter	(1,407)

Actuarial assumptions

The total pension liability in the July 1, 2017 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 are 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 all 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 Diabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for TFFR.

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

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

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

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equities	58.00%	6.70%
Global Fixed Income	23.00%	0.80%
Global Real Assets	18.00%	5.20%
Cash Equivalents	1.00%	0.00%

Discount rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2017. 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, 2017, 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, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	$ 433,311	$ 325,916	$ 236,513

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. Requests to obtain or review this report should be addressed to the North Dakota Retirement and Investment Office, 1930 Burnt Boat Dr, Bismarck, ND 58503.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

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 covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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

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

At June 30, 2018, the Employer reported a liability of $137,925 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was 0.008581 percent, which was an increase of .0749 percent from its proportionate measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of $22,900. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 820	$ (672)
Changes of assumptions	56,558	(3,111)
Net difference between projected and actual earnings on pension plan investments	1,855	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,902	(1)
Employer contributions subsequent to the measurement date	6,399	-
Total	$ 73,534	$ (3,784)

$6,399 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30:		
2019	$	14,046
2020		16,591
2021		14,650
2022		11,817
2023		6,247

Actuarial Assumptions

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

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real real rate of return
Domestic equity	31.00%	6.05%
International equity	21.00%	6.70%
Private equity	5.00%	10.20%
Domestic fixed income	17.00%	1.43%
International fixed income	5.00%	-0.45%
Global real assets	20.00%	5.16%
Cash equivalents	1.00%	0.00%

Discount Rate

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	$ 187,237	$ 137,925	$ 96,899

Pension Plan Fiduciary Net Position

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

NOTE 10 OTHER POST EMPLOYMENT BENEFITS

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

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

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

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

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

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

At June 30, 2018, the Employer reported a liability of $6,405 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Employer's proportion was 0.008097 percent.

For the year ended June 30, 2018, the Employer recognized OPEB expense of $769. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (156)
Changes of assumptions	620	-
Net difference between projected and actual earnings on pension plan investments	-	(242)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(16)
Employer contributions subsequent to the measurement date	1,024	-
Total	$ 1,644	$ (414)

$1,024 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

Year ended June 30:		
2019	$	9
2020		9
2021		9
2022		9
2023		70
2024		72
Thereafter		28

Actuarial Assumptions

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

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Large Cap Domestic Equities	37.00%	5.80%
Small Cap Domestic Equities	9.00%	7.50%
International Equities	14.00%	6.20%
Core-Plus Fixed Income	40.00%	1.56%

Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net pension liability	$ 8,018	$ 6,405	$ 5,022

OPEB Plan Fiduciary Net Position

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

NOTE 11 CONTINGENCIES

Lonetree Special Education Unit received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. Lonetree Special Education Unit's management believes it has complied in all material respects with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of Lonetree Special Education Unit as of June 30, 2018.

NOTE 12 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

NOTE 13 GASB 75 ADJUSTMENT

Lonetree Special Education Unit adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required a prior period adjustment to net OPEB liability and related deferred outflows as of July 1, 2017. The cumulative effect of implementing this GASB statement was an increase in net OPEB liability of $6,429 and increase in deferred outflows – OPEB of $999 on the statement of net position. The adjustments resulted in a decrease of $5,430 in net position on the statement of activities.

NOTE 14 SUBSEQUENT EVENTS

Subsequent events noted above were evaluated through March 5, 2019, which is the date these financial statements were available to be issued.

LONETREE SPECIAL EDUCATION UNIT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Results (Budgetary Basis)	Variance With Budget
REVENUES			
Other local sources	$ 218,711	$ 191,669	$ (27,042)
State sources	60,000	17,909	(42,091)
Federal sources	382,077	386,283	4,206
Other sources	2,000	1,731	(269)
TOTAL REVENUES	662,788	597,592	(65,196)
EXPENDITURES			
Instruction:			
Special education	80,000	51,413	28,587
Support services:			
Pupil services	425,317	412,660	12,657
Instructional staff services	9,000	9,339	(339)
School administration services	152,713	138,317	14,396
Operations and maintenance	8,450	7,748	702
Total support services	595,480	568,064	27,416
TOTAL EXPENDITURES	675,480	619,477	56,003
Net change in fund balance	$ (12,692)	(21,885)	$ (9,193)
Fund balance - beginning		154,048	
Fund balance - ending		$ 132,163	

See Notes to Required Supplementary Information

LONETREE SPECIAL EDUCATION UNIT
SCHEDULES OF EMPLOYER CONTRIBUTIONS - PENSION
LAST TEN FISCAL YEARS*

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 27,333	$ (27,333)	$ -	$ 214,377	12.75%
2017	20,420	(20,420)	-	160,160	12.75%
2016	20,152	(20,152)	-	158,056	12.75%
2015	18,411	(18,411)	-	144,397	12.75%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 6,399	$ (6,399)	$ -	$ 89,868	7.12%
2017	6,237	(6,237)	-	87,593	7.12%
2016	5,620	(5,620)	-	78,926	7.12%
2015	4,688	(4,688)	-	65,836	7.12%

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

See Notes to Required Supplementary Information

LONETREE SPECIAL EDUCATION UNIT
SCHEDULES OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.023728%	$ 325,916	$ 160,160	203.49%	63.20%
2017	0.024327%	356,398	158,056	225.49%	59.20%
2016	0.023475%	307,019	144,397	212.62%	62.10%
2015	0.023808%	249,466	138,100	180.64%	66.60%

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.008581%	$ 137,925	$ 87,597	157.45%	61.98%
2017	0.007832%	76,330	78,926	96.71%	70.46%
2016	0.007390%	50,251	65,836	76.33%	77.15%
2015	0.006888%	43,720	58,017	75.36%	77.70%

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

LONETREE SPECIAL EDUCATION UNIT
SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
LAST TEN FISCAL YEARS*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2018	$ 1,024	$ (1,024)	$ -	$ 89,868	1.14%

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

See Notes to Required Supplementary Information

LONETREE SPECIAL EDUCATION UNIT
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
LAST TEN FISCAL YEARS*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2018	0.008097%	$ 6,405	$ 87,597	7.31%	59.78%

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

See Notes to Required Supplementary Information

NOTE 1 BUDGET AND BUDGETARY ACCOUNTING

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

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

Budgetary Basis of Accounting

To provide a meaningful comparison of the Unit's actual results compared to the budgeted results, the Statement of Revenues, Expenditures and Changes in Fund Balances Budget to Actual – General Fund is prepared on the Unit's budgetary basis. Under the Unit's budgetary basis of accounting, revenues and expenditures are budgeted on the cash basis of accounting.

Listed below is a reconciliation between the revenues presented in the Unit's Statement of Revenues, Expenditures, and Changes in Fund Balance and the budgetary inflows presented in the Unit's General Fund budget.

Actual revenues (budgetary basis) presented on Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual - General Fund	$ 597,592
Differences - budget to GAAP:	
Net effect of December 31, 2017 and 2018 revenue recorded when measurable and available on the Statement of Revenues, Expenditures and Changes in Fund Balance but not recorded as revenue on the Budget to Actual - General Fund until collected	(2,958)
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	$ 594,634

Listed below is a reconciliation between the expenditures as presented in the Unit's Statement of Revenues, Expenditures, and Changes in Fund Balance and the budgetary outflows presented in the Unit's General Fund budget.

Actual expenditures (budgetary basis) presented on Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual - General Fund	$	619,477
Differences - budget to GAAP:		
Net effect of December 31, 2017 and 2018 liabilities that are paid from "available resources" and are recognized as an expenditure when the obligation is incurred on the Statement of Revenues, Expenditures and Changes in Fund Balance but not recorded on the Budget to Actual - General Fund until paid		(9)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	$	619,468

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

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

- Investment return assumption lowered from 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

NDPERS Pension Plan

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NDPERS OPEB

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

BradyMartz

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

To The President and Board Members
Lonetree Special Education Unit
Harvey, North Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Lonetree Special Education Unit as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Unit's basic financial statements, and have issued our report thereon dated March 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unit's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness as item 2018-001.

Make Every Day Count | www.bradymartz.com

Compliance and Other Matters

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

Lonetree Special Education Unit's Response to Finding

Lonetree Special Education Unit's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Unit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brady Martz

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

March 5, 2019

Make Every Day Count | www.bradymartz.com

LONETREE SPECIAL EDUCATION UNIT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Financial Statement Findings

2018-001: Adjusting Journal Entries and Financial Statements- Material Weakness

Criteria
An appropriate system of internal controls requires that the Unit makes a determination that the financial statements and the underlying general ledger accounts are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the Unit's personnel to maintain a working knowledge of current accounting principles and required financial statement disclosures.

Condition
Lonetree Special Education Unit's personnel prepares period financial information for internal use that meets the needs of the Board. However, the Unit does not have the internal resources to prepare full disclosure financial statements for external reporting. In addition, during our audit journal entries were proposed in order to properly reflect the financial statements in accordance with accordance with accounting principles generally accepted in the United States of America

Cause
The personnel of the client do not maintain the knowledge and expertise to prepare full disclosure financial statements. The Unit's internal controls have not been designed to address the specific items that are required to maintain the general ledger accounts in accordance with accounting principles generally accepted in the United States of America.

Effect
The Unit is unable to prepare full disclosure financial statements without assistance from the auditor. An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with accounting principles generally accepted in the United States of America prior to the audit.

Recommendation
We recommend the Unit review its current training system to determine if it is cost effective for the Unit to obtain the knowledge internally. As a compensating control, the Unit should establish an internal control policy to reconcile all accounts timely and document the review of the annual financial statements with a disclosure checklist.

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

Indication of Repeat Finding
This is a repeat of finding 2017-001 from the prior year.