

AUDIT REPORT

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

EXAMINATION FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

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Accounting For Success

**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***

School Board
Pembina Special Education Cooperative
Cavalier, 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 Pembina Special Education Cooperative, Cavalier, North Dakota, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Pembina Special Education Cooperative’s basic financial statements and have issued our report thereon dated October 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pembina Special Education Cooperative’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 Pembina Special Education Cooperative’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Pembina Special Education Cooperative’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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we *did not identify* any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal

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control, described in the accompanying schedule of findings and questioned the costs as items 18-1 and 18-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pembina Special Education Cooperative'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*.

Pembina Special Education Cooperative's Response to Findings

Pembina Special Education Cooperative's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Pembina Special Education Cooperative'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 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.



Mortenson & Rygh
Park River, North Dakota
October 5, 2018

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

SCHEDULE OF FINDINGS AND RESPONSES
YEARS ENDED JUNE 30, 2018 AND 2017

- 18-1 Condition: The Pembina Special Education Cooperative, Cavalier, North Dakota has one business manager responsible for most accounting functions. The business manager collects monies, issues receipts, deposits monies, issues checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial statements. The degree of internal control is limited.
- Criteria: Internal control should be accomplished through proper separation of duties.
- Effect: Internal control is limited.
- Recommendation: Due to the size of the entity it is not feasible to obtain proper separation of duties and no action is practical.
- Response: We concur with the recommendation
- 18-2 Condition: In lieu of the board president signing checks manually, the Cooperative utilized a signature stamp. The business manager, whose signature is also required on checks, has access to this signature stamp. Certain procedures have been put in place to minimize this circumvention of the dual signature control.
- Criteria: A measure of internal control can be accomplished with the requirement of dual signatures on school district warrants.
- Effect: This internal control is circumvented.
- Recommendation: The board president's signature is often needed during the daily operation of the school district when the board president is not readily available and no action is practical.
- Response: We concur with the recommendation

October 5, 2018

Accounting For Success

INDEPENDENT AUDITOR'S REPORT

School Board
Pembina Special Education Cooperative
Cavalier, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Pembina Special Education Cooperative, Cavalier, North Dakota, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the School District'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.

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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 Pembina Special Education Cooperative, Cavalier, North Dakota, as of June 30, 2018 and 2017, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, and pension information on pages 6-10, and 30-34 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 the management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pembina Special Education Cooperative's basic financial statements. The supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of Pembina Special Education Cooperative'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 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 Pembina Special Education Cooperative's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mortenson & Rygh". The signature is written in a cursive, flowing style.

Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

October 5, 2018

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of Pembina Special Education Cooperative's financial performance provides an overall review of the District's financial activities for the fiscal years ended June 30, 2018 and 2017. The intent of the MD&A is to look at the Cooperative's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements, which can be found on pages 12-18 of this report.

Financial Highlights

Key financial highlights for the fiscal years 2017-2018 and 2016-2017 are as follows:

- Net position of the Pembina Special Education Cooperative increased (decreased) \$166,556 as a result of the current years operations. This compares to an increase (decrease) of \$19,773 for the prior year.
- Governmental net position as of the end of the fiscal year totaled \$44,375. For the prior year, governmental net assets totaled \$(122,181).
- Total revenues from all sources were \$2,083,251 compared to \$2,111,710 for the prior year.
- Total expenditures from all sources were \$1,916,695 compared to \$2,091,937 for the prior year.
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the general fund was \$311,708, or 16% of total general fund expenditures. For the prior year, the unreserved and undesignated fund balance for the general fund was \$162,730, or 8% of total general fund expenditures.
- The Cooperative's general fund had \$2,083,251 in total revenues and \$1,934,273 in total expenditures. There was a total of \$-0- from other financing sources. Overall, the general fund balance increased (decreased) by \$148,978 for the year ended June 30, 2018. For the prior year, the Cooperative's general fund had \$2,111,710 in total revenues and \$2,106,785 in total expenditures. There was a total of \$-0- from other financing sources. Overall, the general fund balance increased (decreased) by \$4,925 for the year ended June 30, 2017.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Pembina Special Education Cooperative's basic financial statements. The Pembina Special Education Cooperative's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *Statement of activities* presents information showing how the school's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the Pembina Special Education Cooperative that are principally supported by taxes and intergovernmental revenues (government activities).

The governmental activities of the Pembina Special Education Cooperative include regular instruction, special education, vocational education, technology services, library media services, district wide services, administration, buildings and grounds operations and maintenance, student transportation, rental payments, capital outlay and debt services. The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Pembina Special Education Cooperative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Pembina Special Education Cooperative can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Pembina Special Education Cooperative maintains 1 individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

The Pembina Special Education Cooperative adopts an annual appropriated budget for its general fund a budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Pembina Special Education Cooperative's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The cooperative maintains no fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-29 of this report.

Government-wide Financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Pembina Special Education Cooperative, assets exceeded liabilities by \$44,375 at the close of the most recent fiscal year.

A small portion of Pembina Special Education Cooperative’s net position \$7,493 reflects its investment in capital assets (e.g., land, buildings, and improvements, buildings and infrastructure, machinery and equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Pembina Special Education Cooperative uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Pembina Special Education Cooperative’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

No portion of the Pembina Special Education Cooperative’s net position (0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$36,882 may be used to meet the school’s ongoing obligations to citizens and creditors.

The cooperative’s net position increased (decreased) by \$166,556 during the current fiscal year.

**Pembina Special Education Cooperative Net Position
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current and other assets	\$ 311,708	\$ 162,730	\$ 157,805
Capital assets	15,056	17,064	19,071
Deferred Outflows	<u>35,964</u>	<u>55,019</u>	<u>39,184</u>
Total assets & deferred outflows	362,728	234,813	216,060
Long-term liabilities outstanding	231,895	253,934	232,082
Other liabilities	-0-	-0-	-0-
Deferred Inflows	<u>86,458</u>	<u>106,060</u>	<u>125,932</u>
Total liabilities & deferred inflows	318,353	359,994	358,014
Net Position:			
Net Investment in Capital Assets	7,493	5,148	2,994
Restricted	-0-	-0-	-0-
Unrestricted	<u>36,882</u>	<u>(127,329)</u>	<u>(144,948)</u>
Total net position	\$ 44,375	\$ (122,181)	\$ (141,954)

Governmental activities. Governmental activities increased (decreased) the Pembina Special Education Cooperative’s net position by \$166,556.

**Pembina Special Education Cooperative's Changes in Net Position
As of June 30, 2018, 2017 and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues			
<u>Program Revenues:</u>			
Charges for Services	1,808,614	\$ 1,771,605	\$ 1,848,474
Operating Grants and Contributions	272,623	335,586	416,874
<u>General Revenues:</u>			
Other	<u>2,014</u>	<u>4,519</u>	<u>833</u>
Total Revenues	2,083,251	2,111,710	2,266,181
Expenses			
Special Education	<u>1,916,695</u>	<u>2,091,937</u>	<u>2,104,831</u>
Net Change in Position	166,556	19,773	161,350
Beginning Net Position	<u>(122,181)</u>	<u>(141,954)</u>	<u>(303,304)</u>
Ending Net Position	\$ 44,375	\$ (122,181)	\$ (141,954)

Financial Analysis of the Government's Funds

As noted earlier, the Pembina Special Education Cooperative uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Pembina Special Education Cooperative's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Pembina Special Education Cooperative's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Pembina Special Education Cooperative's governmental funds reported combined ending fund balances of \$311,708, an increase (decrease) of \$148,978 in comparison with the prior year.

The general fund is the chief operating fund of the Pembina Special Education Cooperative. At the end of the current fiscal year, unreserved fund of the general fund was \$311,708 while total fund balance totaled \$311,708. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16% of the total general fund expenditures, while total fund balance represents 16% of that same amount.

The fund balance of the Pembina Special Education Cooperative's general fund increased (decreased) by \$148,978 during the current fiscal year. The Pembina Special Education Cooperative budgeted an anticipated increase (decrease) in fund balance of \$-0-

Capital Assets

As of June 30, 2018, the Pembina Special Education Cooperative had \$15,056 invested in capital assets.

Pembina Special Education Cooperative's Capital Assets		
(net of depreciation)		
Government Activities		
	<u>June 30, 2018</u>	
Buildings	\$ -0-	
Equipment	-0-	
Vehicles	15,056	

Additional information on the Pembina Special Education Cooperative's capital assets can be found in note 4 on page 22 of this report.

Long-Term Debt. At the end of the current fiscal year, the Pembina Special Education Cooperative had \$231,895 debt outstanding.

Pembina Special Education Cooperative's Outstanding Debt		
Governmental Activities		
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Contract Payable	\$ 7,563	\$ 11,916
Net Pension Liability	\$ 224,332	\$ 239,018

Additional information on Pembina Special Education Cooperative's long-term debt can be found in note 5 on page 23-24 of this report.

For The Future

The Pembina Special Education Cooperative has benefited from adequate support of member school districts. The Cooperative has also benefited from continued funding from the State of North Dakota. These elements have enabled the Cooperative to meet many of its instructional and administrative staffing needs.

Requests for Information

This financial report is designed to provide a general overview of the Pembina Special Education Cooperative's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Manager, Pembina Special Education Cooperative, Box 238, Cavalier, ND 58220.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

	<u>Primary Government</u> <u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES:		
Cash and Cash Equivalents	\$ 309,835	\$ 148,826
Due from Other Governments	1,873	13,904
Capital Assets:		
Land, Improvements and Construction in Progress		
Other Capital Assets, Net of Depreciation	15,056	17,064
Deferred Outflow of Resources	35,964	55,019
	-----	-----
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 362,728	\$ 234,813
	=====	=====
LIABILITIES AND DEFERRED INFLOW OF RESOURCES:		
Accounts Payable	\$ -0-	\$ -0-
Noncurrent Liabilities:		
Due in Less than One Year	4,553	4,353
Due in More than One Year	3,010	7,563
Net Pension Liability	224,332	239,018
Deferred Inflow of Resources	86,458	106,060
	-----	-----
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	318,353	356,994
	-----	-----
NET POSITION:		
Net Investment in Capital Assets	7,493	5,148
Unrestricted (Deficit)	36,882	(127,329)
	-----	-----
TOTAL NET POSITION	44,375	(122,181)
	-----	-----
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	\$ 362,728	\$ 234,813
	=====	=====

The notes to the financial statements are an integral part of this statement.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Primary Government:					
Governmental Activities:					
Special Education	\$ (1,916,695)	\$ 1,808,614	\$ 272,623	\$ -0-	\$ 164,542
Total Primary Government	<u>(1,916,695)</u>	<u>1,808,614</u>	<u>272,623</u>	<u>-0-</u>	<u>164,542</u>
			Other Local Revenues		2,014
			Total General Revenues		<u>2,014</u>
			Change in Net Position		166,556
			Net Position - Beginning		(122,181)
			NET POSITION - ENDING		<u>\$ 44,375</u>

The notes to the financial statements are an integral part of this statement.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Primary Government:					
Governmental Activities:					
Special Education	\$ (2,091,937)	\$ 1,771,605	\$ 335,586	\$ -0-	\$ 15,254
Total Primary Government	<u>(2,091,937)</u>	<u>1,771,605</u>	<u>335,586</u>	<u>-0-</u>	<u>15,254</u>
			Other Local Revenues		4,519
			Total General Revenues		<u>4,519</u>
			Change in Net Position		19,773
			Net Position - Beginning		<u>(141,954)</u>
			NET POSITION - ENDING		<u><u>\$ (122,181)</u></u>

The notes to the financial statements are an integral part of this statement.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018 AND 2017

<u>ASSETS:</u>	<u>GENERAL FUND</u>	
	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 309,835	\$ 148,826
Due From Other Governments	1,873	13,904
TOTAL ASSETS	<u>\$ 311,708</u>	<u>\$ 162,730</u>
<u>LIABILITIES & FUND BALANCES</u>		
<u>Liabilities:</u>		
Accounts Payable	\$ -0-	\$ -0-
Total Liabilities	<u>-0-</u>	<u>-0-</u>
<u>Fund Balances:</u>		
Fund Balances:		
Unassigned	\$ 311,708	\$ 162,730
Total Fund Balances	<u>311,708</u>	<u>162,730</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 311,708</u>	<u>\$ 162,730</u>

The accompanying notes are an integral part of these financial statements.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Total Fund Balances - Governmental Funds	\$ 311,708	\$ 162,730
	-----	-----
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.	15,056	17,064
	-----	-----
Assets such as Deferred Outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	35,964	55,019
	-----	-----
Liabilities such as Deferred Inflows are not due and payable in the current period and therefore are not reported in the funds.	(86,458)	(106,060)
	-----	-----
Net pension liability for the Teachers Fund for Retirement are not due and payable in the current period and therefore are not reported in the funds.	(224,332)	(239,018)
	-----	-----
Long-term liabilities, including contracts payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(7,563)	(11,916)
	-----	-----
Net Position - Governmental Funds	\$ 44,375	\$ (122,181)
	=====	=====

The notes to the financial statements are an integral part of this statement.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

<u>REVENUES</u>	<u>GENERAL FUND</u>	
	<u>2018</u>	<u>2017</u>
Local Sources:		
District Assessments	\$ 1,706,659	\$ 1,706,659
Charges for Services	101,955	61,871
Other Revenue	2,014	4,519
State Sources:		
Grants-In-Aid: Unrestricted	46,405	121,532
Federal Sources:		
Grants-In-Aid: Restricted Received Through DPI	226,218	214,054
Medicaid	<u>-0-</u>	<u>3,075</u>
TOTAL REVENUES	<u>2,083,251</u>	<u>2,111,710</u>
 <u>EXPENDITURES</u>		
Current:		
Preschool Special Education	7,198	26,875
Educable Mentally Handicapped	42,928	42,568
Speech Impaired	3,178	5,217
Autism Programs	13,727	402
Emotionally Disturbed	17,838	4,695
Learning Disabled	93,450	114,254
Tuition	1,222,085	1,336,216
Psychological Services	15,133	10,461
Audiology Services	4,178	5,342
Medical Services Diagnosis & Evaluation	13,247	8,287
Occupational Therapy	5,182	5,173
COTA	39,111	38,710
Physical Therapy	46,167	6,159
Support Services - Instructional	18,985	10,789
School Board	1,773	487
Support Services - Administration	181,132	184,769
Support Services - Business	49,064	49,069
Operation & Maintenance of Plant	166	170
Student Transportation	15,952	17,499
Central Support Services	<u>143,779</u>	<u>239,643</u>
TOTAL EXPENDITURES	<u>1,934,273</u>	<u>2,106,785</u>
Excess of Revenues Over (Under) Expenditures	<u>148,978</u>	<u>4,925</u>
Net Changes in Fund Balances	<u>148,978</u>	<u>4,925</u>
Fund Balance - July 1	<u>162,730</u>	<u>157,805</u>
FUND BALANCE - JUNE 30	<u>\$ 311,708</u>	<u>\$ 162,730</u>

The accompanying notes are an integral part of the financial statements.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 148,978	\$ 4,925
	-----	-----
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 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 period.	(2,008)	(2,007)
	-----	-----
Government funds report deferred outflows as expenditures however, in the statement of activities these costs do not require the use or provide a source of financial resources.	(19,055)	15,835
	-----	-----
Government funds report deferred inflows as revenue however, in the statement of activities these inflows do not require the use or provide a source of financial resources.	19,602	19,872
	-----	-----
Reduction or Increase of the Net Pension Liability does not require the use or provide a source of financial resources.	14,686	(23,013)
	-----	-----
Governmental funds report debt retirement as expenditures however, in the statement of activities this cash outlay is not an expenditure but a reduction to a liability on the statement of net position.	4,353	4,161
	-----	-----
Change in Net Position of Governmental Activities	\$ 166,556	\$ 19,773
	=====	=====

The notes to the financial statements are an integral part of this statement.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the school district 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

The Governing Board is comprised of member school district superintendents and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the Special Education Cooperative (the primary government) and its component units. A component unit would be included in the Special Education Cooperative's reporting entity because of the significance of their operational or financial relationship with the Special Education Cooperative. The criteria established by GSAB Statement No. 14 in determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the school district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the special education cooperative. The Special Education Cooperative has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all the Special Education Cooperative's nonfiduciary activities with most interfund activities removed. *Governmental Activities* include programs supported primarily by State foundation aid, grants, and other intergovernmental revenues. The Special Education Cooperative has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxable valuation assessments and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information for governmental funds and fiduciary funds. Separate statements are presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The Special Education Cooperative considers all governmental funds as major funds.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS:

General Fund - The general fund is the general operating fund of the special education cooperative. It is used to account for all financial resources except those required to be accounted for in another fund.

Following is a list of the major funds:

<u>Fund</u>	<u>Brief Description</u>
General Fund	The General Fund is the general operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

C. Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of taxable valuation assessments. Revenues received from the Department of Public Instruction are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized in the governmental funds.

E. Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less. 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 secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments to invest 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 or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the school's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The district's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

F. Capital Assets

Capital Assets include land, buildings, equipment, vehicles, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment for capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at actual or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during the construction of Governmental Activities capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows.

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	Straight-Line	-----
Buildings & Improvements	5,000	Straight-Line	50 years
Equipment	5,000	Straight-Line	10 years
Vehicles	5,000	Straight-Line	4-7 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in the governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

G. Long-Term Liabilities

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures.

H. Deferred Revenue

Receivables, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

I. Fund Equity

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact.

Restricted fund balances will exist when constraints are placed on those resources that are either externally imposed or imposed by law.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by the school board.

Assigned fund balances will be amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted, nor committed.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted, or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance except for a deficit fund balance in other funds.

J. Order of Fund Balance Spending Policy

The school district's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First nonspendable amounts are determined. Then restricted balances for specific purposes are determined. Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balances if the fund is in a deficit situation.

K. Prior Year Comparative Total Columns

Prior year total columns are financial data provided for analysis and comparative purposes only.

NOTE 2: DEPOSITS

At June 30, 2018 and 2017 the Special Education Cooperative had deposits of \$309,834.55 and \$148,825.82 respectively. District deposits at balance sheet date were covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the entity or its agent in the entity's name (Category II assets). North Dakota statutes require the market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance. District deposits were adequately protected.

NOTE 3: INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of amounts owed from other governmental entities for Special Education services provided to those governmental entities.

NOTE 4: CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2018 and 2017, is as follows:

Capital Assets:	<u>7-01-17</u>	<u>Additions</u>	<u>Retirements</u>	<u>6-30-18</u>
Vehicles	\$ 20,075	\$ -0-	\$ -0-	\$ 20,075
	-----	-----	-----	-----
Less Accumulated Depreciation for:				
Vehicles	3,011	2,008	-0-	5,019
	-----	-----	-----	-----
Government Activity				
Net Capital Assets	\$ 17,064	\$ (2,008)	\$ -0-	\$ 15,056
	=====	=====	=====	=====

Capital Assets:	<u>7-01-16</u>	<u>Additions</u>	<u>Retirements</u>	<u>6-30-17</u>
Vehicles	\$ 20,075	\$ -0-	\$ -0-	\$ 20,075
	-----	-----	-----	-----
Less Accumulated Depreciation for:				
Vehicles	1,004	2,007	-0-	3,011
	-----	-----	-----	-----
Government Activity				
Net Capital Assets	\$ 19,071	\$ (2,007)	\$ -0-	\$ 17,064
	=====	=====	=====	=====

Depreciation was charged to functions as follows:

Governmental Activities:	<u>2018</u>	<u>2017</u>
Depreciation - Unallocated	\$ 2,008	\$ 2,007
	-----	-----
Total Depreciation Expense - Governmental Activities	\$ 2,008	\$ 2,007
	=====	=====

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of debt transactions of the special education cooperative for the years ended June 30, 2018 and 2017:

<u>CONTRACT PAYABLE</u>	
Debt Payable July 1, 2016	\$ 16,077
Debt Issued	-0-
Debt Retired	4,161
Debt Payable June 30, 2017	\$ 11,916
Debt Issued	-0-
Debt Retired	4,353
Debt Payable June 30, 2018	\$ 7,563
	=====
Due within one year	\$ 4,553
	=====

CONTRACTS PAYABLE

\$20,075 Promissory note with Citizens State Bank-Midwest for purchase of a vehicle. There are monthly payments of \$400 at 4.5% through March 15, 2020.

\$ 7,563
=====

The annual requirements to amortize all debt outstanding as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,553	\$ 247	\$ 4,800
2020	3,010	49	3,059
	-----	-----	-----
Total	\$ 7,563 =====	\$ 296 =====	\$ 7,859 =====

NOTE 6: EMPLOYEE RETIREMENT SYSTEMS

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 fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by 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.

General Information about North Dakota Teachers' 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 the 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 funded members on or after July 1, 2008.

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.

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.

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% 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 70 ½. 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, the Employer reported a liability of \$224,332 (from Exhibit E Column 2 in TFFR GASB Report) 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 .016333%, (from Exhibit E, Column 1 in TFFR GASB Report) which was an increase or (decrease) of .000018 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the Employer recognized pension expense of \$593 (from Exhibit E, Column 13 of TFFR GASB Report). At June 30, 2018 the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (from Exhibit E, Columns 14-22 of TFFR GASB Report with the exception of employer contributions subsequent to the measurement date):

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 860	\$ 2,449
Changes of assumptions	15,990	-0-
Net difference between projected and actual earnings on pension plan investments	3,099	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	188	84,009
Employer contributions subsequent to the measurement date (see below)	15,827	-0-
Total	<u>\$ 35,964</u> <u>=====</u>	<u>\$ 86,458</u> <u>=====</u>

\$15,827 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 (employer's subsequent fiscal year-end).

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (from Exhibit E, Columns 23-28 of TFFR GASB Report - years will need to be rolled forward one year from the dates in the report):

Year ended June 30:	
2019	\$ (17,130)
2020	(12,269)
2021	(15,312)
2022	(20,649)
2023	(744)
Thereafter	(218)

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%-14.5%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equities	58%	6.7%
Global Fixed Income	23%	0.8%
Global Real Assets	18%	5.2%
Cash Equivalents	1%	0.0%

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 member 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: (from Exhibit E, Columns 4-6 TFFR GASB Report)

	Current Discount		
	1% Decrease(6.75%)	Rate (7.75%)	1% Increase (8.75%)
Employer's proportionate share of the net pension liability	\$298,253	\$224,332	\$162,795

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

NOTE 7: RISK MANAGEMENT

The Special Education District 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. The following are funds established by the State for risk management issues:

The Special Education District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The School District pays an annual premium to the State Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund does not currently charge any premium for this coverage.

The Special Education District participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed for the payment of claims to employees injured in the course of employment.

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

During the mid-1980's, the Special Education District 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, 1992, 1993, 1994, and 1995, the NDIRF returned 20% each year, for a total of 100%, of the capitalized amount with a premium reduction or cash payment to the Special Education District. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE (UNFAVORABLE) FAVORABLE
<u>REVENUES</u>				
Revenue from Local Sources	\$ 1,767,108	\$ 1,767,108	\$ 1,810,628	\$ 43,520
Revenues from State Sources	37,073	37,073	46,405	9,332
Revenues from Federal Sources	229,218	229,218	226,218	(3,000)
	-----	-----	-----	-----
Total Revenues	2,033,399	2,033,399	2,083,251	49,852
	-----	-----	-----	-----
<u>EXPENDITURES</u>				
Current:				
Preschool Special Education	28,679	28,679	7,198	21,481
Educable Mentally Handicapped	37,200	37,200	42,928	(5,728)
Speech Impaired	4,100	4,100	3,178	922
Autism Programs	18,950	18,950	13,727	5,223
Emotionally Disturbed	22,736	22,736	17,838	4,898
Learning Disabled	155,068	155,068	93,450	61,618
Assessments	1,195,930	1,195,930	1,222,085	(26,155)
Psychological Services	19,000	19,000	15,133	3,867
Audiology Services	5,200	5,200	4,178	1,022
Medical Services Diagnosis & Evaluation	11,088	11,088	13,247	(2,159)
Occupational Therapy	5,600	5,600	5,182	418
COTA	41,591	41,591	39,111	2,480
Physical Therapy	41,500	41,500	46,167	(4,667)
Support Services - Instructional	23,448	23,448	18,985	4,463
School Board	4,000	4,000	1,773	2,227
Support Services - Administration	183,830	183,830	181,132	2,698
Support Services - Business	52,294	52,294	49,064	3,230
Operation & Maintenance of Plant	523	523	166	357
Student Transportation	18,276	18,276	15,952	2,324
Central Support Services	164,386	164,386	143,779	20,607
	-----	-----	-----	-----
Total Expenditures	2,033,399	2,033,399	1,934,273	99,126
	-----	-----	-----	-----
Revenues Over (Under) Expenditures	-0-	-0-	148,978	148,978
	-----	-----	-----	-----
Fund Balance - July 1	162,730	162,730	162,730	-0-
	-----	-----	-----	-----
FUND BALANCE - JUNE 30	\$ 162,730	\$ 162,730	\$ 311,708	\$ 148,978
	=====	=====	=====	=====

The accompanying required supplementary information notes are an integral part of this schedule.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE (UNFAVORABLE) FAVORABLE
<u>REVENUES</u>				
Revenue from Local Sources	\$ 1,754,058	\$ 1,754,058	\$ 1,773,049	\$ 18,991
Revenues from State Sources	172,812	172,812	121,532	(51,280)
Revenues from Federal Sources	219,554	219,554	217,129	(2,425)
	-----	-----	-----	-----
Total Revenues	2,146,424	2,146,424	2,111,710	(34,714)
	-----	-----	-----	-----
<u>EXPENDITURE</u>				
Current:				
Preschool Special Education	21,188	21,188	26,875	(5,687)
Educable Mentally Handicapped	45,647	45,647	42,568	3,079
Speech Impaired	8,615	8,615	5,217	3,398
Autism	-0-	-0-	402	(402)
Emotionally Disturbed	5,100	5,100	4,695	405
Learning Disabled	141,132	141,132	114,254	26,878
Tuition	1,282,775	1,282,775	1,336,216	(53,441)
Psychological Services	11,500	11,500	10,461	1,039
Audiology Services	4,750	4,750	5,342	(592)
Medical Services Diagnosis & Evaluation	10,000	10,000	8,287	1,713
Occupational Therapy	4,800	4,800	5,173	(373)
COTA	39,518	39,518	38,710	808
Physical Therapy	6,300	6,300	6,159	141
Support Services - Instructional	21,600	21,600	10,789	10,811
School Board	5,550	5,550	487	5,063
Support Services - Administration	186,257	186,257	184,769	1,488
Support Services - Business	47,981	47,981	49,069	(1,088)
Operation & Maintenance of Plant	1,092	1,092	170	922
Student Transportation	17,951	17,951	17,499	452
Central Support Services	284,668	284,668	239,643	45,025
	-----	-----	-----	-----
Total Expenditures	2,146,424	2,146,424	2,106,785	39,639
	-----	-----	-----	-----
Revenues Over (Under) Expenditures	-0-	-0-	4,925	4,925
Fund Balance - July	157,805	157,805	157,805	-0-
	-----	-----	-----	-----
FUND BALANCE - JUNE 30	\$ 157,805	\$ 157,805	\$ 162,730	\$ 4,925
	=====	=====	=====	=====

The accompanying required supplementary information notes are an integral part of this schedule.

Pembina Special Education Cooperative
Cavalier, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*
June 30, 2018
(from Exhibit E and Exhibit 2 of TFFR GASB Report)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
1. Employer's proportion of the net pension liability (asset). Exhibit E, Column 1	.016333%	.016315%	.016516%	.028949%
2. Employer's proportionate share of the net pension liability (asset). Exhibit E, Column 2	\$224,332	\$239,018	\$216,005	\$303,334
3. Employer's covered-employee payroll. Exhibit E, Column 3	\$110,240	\$106,000	\$101,589	\$167,922
4. Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll. Calculate, 2 divided by 3	203.49%	225.49%	212.62%	180.64%
5. Plan fiduciary net position as a percentage of the total pension liability. Exhibit 2	63.2%	59.2%	62.1%	66.6%

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

The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Pembina Special Education Cooperative
Cavalier, North Dakota

Schedule of Employer Contributions
ND Teacher's Fund for Retirement
Last 10 Fiscal Years*
June 30, 2018
(from Exhibit E of TFFR GASB Report)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
1. Statutorily required contribution Exhibit E, Column 7	\$15,827	\$14,056	\$13,515	\$12,952	\$18,051
2. Contributions in relation to the statutorily required contribution Exhibit E, Column 8	\$(15,827)	\$(14,056)	\$(13,515)	\$(12,952)	\$(18,051)
3. Contribution deficiency (excess) Exhibit E, Column 9	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
4. Employer's covered-employee payroll Exhibit E, Column 3	\$124,132	\$110,240	\$106,000	\$101,589	\$167,922
5. Contributions as a percentage of covered-employee payroll Exhibit E, Column 10	12.75%	12.75%	12.75%	12.75%	10.75%

*Complete data for this schedule is not available prior to 2014.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The Board of Education adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund, special revenue funds, debt service funds, and capital project funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

The annual budget must be prepared and school district taxes must be levied on or before the fifteenth day of August of each year.

The taxes levied must be certified to the county auditor by August twenty-fifth. The governing body of the school district may amend its tax levy and budget on or before the tenth day of October of each year but the certification must be filed with the county auditor within the time limitations as outlined in NDCC section 57-15-31.1.

The operating budget includes proposed expenditures and means of financing them.

Each budget is controlled by the business manager at the revenue and expenditure function/object level.

The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

All appropriations lapse at year-end.

NOTE 2: CHANGES OF ASSUMPTIONS

Regarding the ND Teachers' Fund for Retirement amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study dated April 30, 2015. This includes changes to the investment return, inflation, salary scale, administrative expenses, turnover and retirement rates, and mortality tables.

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

<u>GENERAL FUND TYPE</u>	<u>BALANCE</u> <u>07-01-16</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u> <u>06-30-17</u>
General Fund	\$ 154,827.51	\$ 2,100,782.89	\$ 2,106,784.58	\$ 148,825.82
	-----	-----	-----	-----
TOTAL ALL FUNDS	\$ 154,827.51	2,100,782.89	\$ 2,106,784.58	\$ 148,825.82
	=====	=====	=====	=====

<u>GENERAL FUND TYPE</u>	<u>BALANCE</u> <u>07-01-17</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u> <u>06-30-18</u>
General Fund	\$ 148,825.82	\$ 2,095,281.76	\$ 1,934,273.03	\$ 309,834.55
	-----	-----	-----	-----
TOTAL ALL FUNDS	\$ 148,825.82	\$ 2,095,281.76	\$ 1,934,273.03	\$ 309,834.55
	=====	=====	=====	=====

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

<u>FEDERAL GRANTOR\PASS-THROUGH GRANTOR\PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES 2018</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Public Instruction:			
IDEA B - Special Education	84.027	F84027A	\$ 223,016.64
IDEA B - Preschool	84.173	F84173A	3,201.29

Total U. S. Department of Education			226,217.93

TOTAL FEDERAL FINANCIAL ASSISTANCE			226,217.93
			=====

<u>FEDERAL GRANTOR\PASS-THROUGH GRANTOR\PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES 2017</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Public Instruction:			
IDEA B - Special Education	84.027	F84027A	\$ 210,882.22
IDEA B - Preschool	84.173	F84173A	3,172.04

Total U. S. Department of Education			214,054.26

TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 214,054.26
			=====

PEMBINA SPECIAL EDUCATION COOPERATIVE
CAVALIER, NORTH DAKOTA

SPECIAL EDUCATION COOPERATIVE OFFICIALS

FOR THE YEAR ENDED JUNE 30, 2018

Dean Ralston	Board President
Jack Maus	Board Vice-President
Lisa Goldade	Director
Mindy Indridson	Business Manager
Mitch Jorgenson	Board Member
Paul Stremick	Board Member

FOR THE YEAR ENDED JUNE 30, 2017

Darren Albrecht	Board President
Dean Ralston	Board Vice-President
Lisa Goldade	Director
Mindy Indridson	Business Manager
Andrew Currie	Board Member
Mitch Jorgenson	Board Member
Paul Stremick	Board Member