

**UPPER VALLEY SPECIAL EDUCATION DISTRICT
GRAFTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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UPPER VALLEY SPECIAL EDUCATION DISTRICT
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
AT JUNE 30, 2018

Jeff Manley	President
Kirk Ham	Vice President
Jill Olson	Board Member
Linda Lutovsky	Board Member
Darren Albrecht	Board Member
Steve Swiontek	Board Member
Roger Abbe	Board Member
Renaë Grinde	Business Manager
Dan Juve	Director

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Upper Valley Special Education District
Grafton, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Upper Valley Special Education District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

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 the Upper Valley Special Education District, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's Contributions to the TFFR Pension Plan, schedule of District's proportionate share of net pension liability, and budgetary comparison 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.

Other Information

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

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

The roster of school officials on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of the District'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 District'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 District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

December 14, 2018

UPPER VALLEY SPECIAL EDUCATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2018

The discussion and analysis of Upper Valley Special Education District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position of the District decreased \$230,459 as a result of the current year's operations.
- Total revenues from all sources were \$5,826,556.
- Total expenses were \$6,057,015.
- Overall, the general fund balance decreased by \$24,281 for the year ended June 30, 2018, compared to a decrease of \$28,767 in the previous year.

Using this Annual Report

This annual report consists of a series of financial statements and related footnotes. These statements are organized so the reader can understand the Upper Valley Special Education District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2018?" The statement of net position and the statement of activities answers this question. These statements include all assets, deferred inflows of resources, deferred outflows of resources, and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not.

In the statement of net position and the statement of activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services and administration.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District's major governmental fund is the General Fund.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF JUNE 30, 2018

Governmental Funds

The District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

Financial Analysis of the District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net position as of June 30, 2018 and 2017.

As indicated in the financial highlights, the District's net position decreased by \$230,459 as a result of current year operations. Net position may serve over time as a useful indicator of the District's financial position.

The District's net position of \$(3,313,067) is segregated into two separate categories. Net investment in capital assets represents 0.58% of the District's entire net position. It should be noted that these assets are not available for future spending. The remaining unrestricted net position represents a negative 100.58% of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations.

Table 1
Net Position

ASSETS	2018	2017
Current Assets	\$ 1,524,901	\$ 1,389,566
Capital Assets (Net of Accumulated Depreciation)	19,150	28,345
TOTAL ASSETS	1,544,051	1,417,911
DEFERRED OUTFLOWS OF RESOURCES	999,277	1,371,974
LIABILITIES		
Current Liabilities	491,882	332,266
Long-Term Liabilities	5,261,206	5,459,235
TOTAL LIABILITIES	5,753,088	5,791,501
DEFERRED INFLOWS OF RESOURCES	103,307	80,992
NET POSITION		
Net Investment in Capital Assets	19,150	28,345
Unrestricted	(3,332,217)	(3,110,953)
TOTAL NET POSITION	\$ (3,313,067)	\$ (3,082,608)

UPPER VALLEY SPECIAL EDUCATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF JUNE 30, 2018

Table 2 shows the changes in net position for fiscal years ended June 30, 2018 and 2017.

Table 2
Changes in Net Position

	<u>2018</u>	<u>2017</u>
REVENUES		
Program Revenues:		
Charges for Services	\$ 2,223,824	\$ 2,382,104
Operating Grants and Contributions	3,557,958	3,511,003
General Revenues:		
Investment Income	527	481
Other Revenues	44,247	43,934
TOTAL REVENUES	<u>5,826,556</u>	<u>5,937,522</u>
EXPENSES		
Instruction	5,644,284	5,755,221
Support Services:		
General Administration Services	412,731	408,171
TOTAL EXPENSES	<u>6,057,015</u>	<u>6,163,392</u>
INCREASE (DECREASE) IN NET POSITION	(230,459)	(225,870)
NET POSITION - BEGINNING OF YEAR	<u>(3,082,608)</u>	<u>(2,856,738)</u>
NET POSITION - END OF YEAR	<u>\$ (3,313,067)</u>	<u>\$ (3,082,608)</u>

Operating grants and contributions constituted 61%, and charges for services made up 38% of the total revenues of governmental activities of the District for fiscal year 2018.

Instruction comprises 93% of District expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table 3
Cost of Services

	<u>Total Cost for Year Ended 6/30/2018</u>	<u>Net Cost for Year Ended 6/30/2018</u>	<u>Total Cost for Year Ended 6/30/2017</u>	<u>Net Cost for Year Ended 6/30/2017</u>
Instruction	\$ 5,644,284	\$ 137,498	\$ 5,755,221	\$ 137,886
Support Services:				
General Administration Services	412,731	(412,731)	408,171	(408,171)
Total Expenses	<u>\$ 6,057,015</u>	<u>\$ (275,233)</u>	<u>\$ 6,163,392</u>	<u>\$ (270,285)</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

General administration, school administration, and business services include expenses associated with administrative and financial supervision of the District.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF JUNE 30, 2018

General Fund Budgeting Highlights

During the course of the 2018 fiscal year, the District believes the variances between budgeted and actual are small. This indicates that the users of the District's budget and financial statements were well informed.

Capital Assets

As of June 30, 2018, the District had \$19,150 invested in capital assets. See Note 6 for additional information. Table 4 shows balances as of June 30, 2018 and 2017.

Table 4
Capital Assets (Net of Depreciation) at June 30,

	2018	2017
Instructional	\$ 5,655	\$ 8,605
General Administrative Services	13,495	19,740
	\$ 19,150	\$ 28,345

Debt Administration

As of June 30, 2018, the District has \$5,261,206 in long-term liabilities, with none due within one year. See Note 7 for details. See below for a description of the District's long-term liabilities:

	Balance 07/01/17	Additions	Retirement	Balance 06/30/18	Amount Due in One Year
Net Pension Liability	\$5,445,455	\$ 1,506,225	\$ 1,702,819	\$ 5,248,861	\$ -
Compensated Absences	13,780	-	1,435	12,345	-
	\$5,459,235	\$ 1,506,225	\$ 1,704,254	\$ 5,261,206	\$ -

For the Future

The District has no major expansion or construction plans. Any acquisitions will be updating computer hardware and software, as well as adaptive equipment as needed to meet the needs of physically disabled students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. You may request a copy of this report by contacting Dan Juve, Director, Upper Valley Special Education District, 516 Cooper Avenue, P. O. Box 272, Grafton, ND 58237.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,233,329
Accounts Receivable	<u>291,572</u>
Total Current Assets	<u>1,524,901</u>

Non-current Assets:

Capital Assets	123,875
Less Accumulated Depreciation	<u>(104,725)</u>
Total Non-current Assets	<u>19,150</u>

TOTAL ASSETS 1,544,051

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan - TFFR	<u>999,277</u>
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TOTAL DEFERRED OUTFLOWS OF RESOURCES 999,277

LIABILITIES

Current Liabilities:

Accounts Payable	83,715
Accrued Payroll Liabilities	84,869
Salaries Payable	<u>323,298</u>
Total Current Liabilities	<u>491,882</u>

Long-Term Liabilities:

Compensated Absences	12,345
Net Pension Liability	<u>5,248,861</u>
Total Non-Current Liabilities	<u>5,261,206</u>

TOTAL LIABILITIES 5,753,088

DEFERRED INFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan - TFFR	<u>103,307</u>
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TOTAL DEFERRED INFLOWS OF RESOURCES 103,307

NET POSITION

Net Investment in Capital Assets	19,150
Unrestricted	<u>(3,332,217)</u>
TOTAL NET POSITION	<u><u>\$ (3,313,067)</u></u>

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants Contributions</u>	<u>Capital Grants Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Special Education	\$ 5,644,284	\$2,223,824	\$ 3,557,958	\$ -	\$ 137,498
Total Instruction	5,644,284	2,223,824	3,557,958	-	137,498
Support Services:					
General Administration Services	412,731	-	-	-	(412,731)
Total Support Services	412,731	-	-	-	(412,731)
Total Governmental Activities	\$ 6,057,015	\$2,223,824	\$ 3,557,958	\$ -	(275,233)
General Revenues:					
Investment Income					527
Other Revenues					44,247
Total General Revenues					44,774
Change in Net Position					(230,459)
Net Position - Beginning					(3,082,608)
Net Position - End of Year					\$ (3,313,067)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018

ASSETS	<u>General Fund</u>
Cash and Cash Equivalents	\$ 1,233,329
Accounts Receivable	<u>291,572</u>
TOTAL ASSETS	<u>\$ 1,524,901</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 83,715
Accrued Payroll Liabilities	84,869
Salaries Payable	<u>323,298</u>
TOTAL LIABILITIES	<u>491,882</u>
FUND BALANCE	
Unassigned, Reported in:	
General Fund	<u>1,033,019</u>
TOTAL FUND BALANCE	<u>1,033,019</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,524,901</u>

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Total Fund Balance - Governmental Funds \$ 1,033,019

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 as assets in governmental funds.

Cost	\$ 123,875	
Accumulated Depreciation	<u>(104,725)</u>	
Net		19,150

Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plan in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds. 895,970

Long-term liabilities, including special assessments, are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds.

Net Pension Liability		(5,248,861)
Compensated Absences		<u>(12,345)</u>

Total Net Position- Governmental Activities \$(3,313,067)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund
REVENUES	
Local	\$ 2,268,598
State	2,680,799
Federal	877,159
TOTAL REVENUE	5,826,556
EXPENDITURES	
CURRENT:	
Salaries	3,149,990
Employee Benefits	740,615
Purchased Services	1,892,484
Supplies	45,676
Other Objects	12,733
CAPITAL OUTLAY:	
Equipment	9,339
TOTAL EXPENDITURES	5,850,837
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,281)
FUND BALANCE - BEGINNING OF YEAR	1,057,300
FUND BALANCE - END OF YEAR	\$ 1,033,019

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Government Funds \$ (24,281)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Depreciation Expense	<u>\$ (9,195)</u>	(9,195)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

This consisted of the (increase)/decrease in:

Compensated Absences	<u>1,435</u>	1,435
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Changes in deferred outflows and inflows of resources related to net pension liability:	(395,012)
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Changes in Net Pension Liability	<u>196,594</u>
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Change in Net Position - Governmental Activities	<u><u>\$ (230,459)</u></u>
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See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

NOTE 1 DESCRIPTION OF THE DISTRICT REPORTING ENTITY

The Upper Valley Special Education District operates the special education and related areas of education for its member School Districts in the Northeastern part of North Dakota.

Reporting Entity - Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on these criteria, there are no component units to be included within the District's reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District'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. The District's significant accounting policies are described below:

Basis of Presentation

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

Government-wide Financial Statements:

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the District as a whole.

The statement of net position presents the financial condition of the governmental activities of the District at year-end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, 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 District.

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

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District 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.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

Governmental funds are utilized to account for most of the District'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 District's major governmental fund is as follows:

General Fund:

This fund is the general operating fund of the District. It accounts for all financial resources except those requiring 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, deferred inflows of resources, and liabilities associated with the operation of the District are included in the statement of net position.

Fund Financial Statements:

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

Basis of Accounting:

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

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

The District'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 District 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.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

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

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

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

Major revenue sources susceptible to accrual include: intergovernmental revenues and investment income.

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.

Cash and Cash Equivalents:

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

Investments:

Investments are recorded at market value. North Dakota state statute authorizes school districts 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, instrumentality's, or organizations created by an act of Congress, b) securities sold under agreements to repurchase, written by a financial institution in which the 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.

Fair Value Measurements:

The District accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

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- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Capital Assets:

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year. The District has established a capitalization threshold of \$1,000. Donated fixed assets are recorded at their acquisition value at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

Instructional	5-7 Years
Office	7 Years

Compensated Absences:

Employees who have been employed by the District for a minimum of 10 years are eligible for sick leave pay for a maximum of 90 days at \$15 per day with a maximum payout of \$1,350. As of June 30, 2018, there are 14 employees eligible for sick leave pay. A corresponding liability, which includes applicable payroll taxes, has been set up as a long-term liability.

Accrued Liabilities and Long-term Obligations:

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

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 Teacher's 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.

Fund Balance Classifications:

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

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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

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

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

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

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

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

The District will strive to maintain a minimum unassigned general fund balance of not less than 10 percent and not more than 25 percent of the annual budget, with an optimal balance of 15 percent.

Net Position:

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The District has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the TFFR pension plan as well as contributions to the plan made after the measurement date.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents the actuarial differences within the TFFR pension plan.

Extraordinary and Special Items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School Board and are either unusual in nature or infrequent in occurrence.

Estimates:

The preparation of the 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 may differ from those estimates.

Significant Group Concentrations of Credit Risk:

As of June 30, 2018, the District's receivables consist of amounts due from other governmental units within the State of North Dakota

NOTE 3 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

In accordance with North Dakota laws, the District maintains deposits at a depository authorized by the School Board. The depository is a member of the Federal Reserve System.

North Dakota laws require that all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal at least 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. North Dakota laws require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral.

At June 30, 2018, the carrying amount of the District's deposits was \$1,233,329 and the bank balance was \$1,203,983. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Custodial Credit Risk – Investments

The District may also invest idle funds as authorized by North Dakota laws, as follows:

1. 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.
2. 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.
3. Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.
4. Obligations of the state.

NOTE 4 ACCOUNTS RECEIVABLE

The District's accounts receivable as of June 30, 2018 are as follows:

State of North Dakota	\$ 216,243
Other Districts	<u>75,329</u>
Total	<u>\$ 291,572</u>

NOTE 5 RELATED PARTY TRANSACTIONS

The District was organized to enlarge and enrich the learning opportunities in special education and related areas of education for eligible residents of the District's member Districts. The following amounts were received from and paid to member Districts for the year ended June 30, 2018:

Received from Member Districts	\$ 2,049,566
Paid to Member Districts	191,676

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 6 CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets during the year:

	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2018</u>
Governmental Activities				
Instructional	\$ 111,381	\$ -	\$ 33,671	\$ 77,710
Office	46,765	-	600	46,165
Total	<u>158,146</u>	<u>-</u>	<u>34,271</u>	<u>123,875</u>
Less Accumulated Depreciation				
Instructional	102,776	2,950	33,671	72,055
Office	27,025	6,245	600	32,670
Total	<u>129,801</u>	<u>9,195</u>	<u>34,271</u>	<u>104,725</u>
Net Capital Assets for Governmental Activities	<u>\$ 28,345</u>	<u>\$ (9,195)</u>	<u>\$ -</u>	<u>\$ 19,150</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,950
General Administration Services	6,245
Total	<u>\$ 9,195</u>

NOTE 7 LONG-TERM DEBT

The long-term debt obligations outstanding at year-end and changes in long-term debt are summarized as follows:

	<u>Balance 07/01/17</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance 06/30/18</u>	<u>Amount Due in One Year</u>
Net Pension Liability	\$5,445,455	\$ 1,506,225	\$ 1,702,819	\$ 5,248,861	\$ -
Compensated Absences	13,780	-	1,435	12,345	-
	<u>\$5,459,235</u>	<u>\$ 1,506,225</u>	<u>\$ 1,704,254</u>	<u>\$ 5,261,206</u>	<u>\$ -</u>

Compensated absences and the net pension liability are generally liquidated by the general fund.

NOTE 8 OPERATING LEASES

The District leases office and class room space on a year-to-year basis as needed. During the year ended June 30, 2018, \$7,112 was charged to expense. The District also leases a copy machine. Total expense for the year ended June 30, 2018 was \$3,409.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 9 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by the Teacher's Fund for Retirement (TFFR) which is administered on a statewide basis.

Disclosures relating to the plan 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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
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AS OF JUNE 30, 2018

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.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Pension Costs

At June 30, 2018, the District reported a liability of \$5,248,861 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 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 July 1, 2017, the Employer's proportion was 0.382145 percent which was an increase of 0.010457 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of \$533,619. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 20,133	\$ 57,299
Changes in actuarial assumptions	374,119	-
Difference between projected and actual investment earnings	72,502	-
Changes in proportion	197,323	46,008
Contributions paid to TFFR subsequent to the measurement date	335,200	-
Total	<u>\$ 999,277</u>	<u>\$ 103,307</u>

\$335,200 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ 118,950
2020	232,671
2021	161,469
2022	36,559
2023	(1,247)
Thereafter	12,367

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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

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 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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% 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.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

Pension Liability Sensitivity

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 in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	\$ 6,978,455	\$ 5,248,861	\$ 3,809,028

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and injuries to employees.

In 1986, state agencies and political subdivisions 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. The District pays an annual premium to NDIRF for its general liability, and accident insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The District carries commercial insurance for employees' health and the District also participates in the workers' compensation program through the State of North Dakota.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 11 CONTINGENT LIABILITIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12 NEW 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.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

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*, improve 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 after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interest*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable 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 the 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 District's financial statements.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2018

NOTE 13 FUND BALANCE

The Board of Education has formally adopted a fund balance policy for the General Fund. The policy establishes a year-end target fund balance amount for cash-flow timing needs (working capital) and contingencies of not less than 10 percent and not more than 25 percent of the current annual operating expenditure budget, with an optimal balance of 15 percent. As of June 30, 2018, the fund balance of the general fund was approximately 18% of the current year's operating expenditures.

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through December 14, 2018, which is the date these financial statements were available to be issued.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO THE TFFR PENSION PLAN
LAST TEN YEARS

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 335,200	\$ (335,200)	\$ -	\$ 2,629,016	12.75%
2017	328,870	(328,870)	-	2,579,370	12.75%
2016	307,907	(307,907)	-	2,414,953	12.75%
2015	295,828	(295,828)	-	2,320,219	12.75%

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll	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	0.382145%	\$ 5,248,861	\$ 2,579,370	203.49%	63.20%
2017	0.371689%	5,445,455	2,414,953	225.49%	59.20%
2016	0.377207%	4,933,321	2,320,219	212.62%	62.10%
2015	0.363934%	3,813,383	2,111,013	180.64%	66.60%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for prior years is not available.

See Notes to the Required Supplementary Information

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	2018			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
REVENUES				
Local	\$ 2,211,574	\$ 2,225,974	\$ 2,268,598	\$ 42,624
State	1,767,836	2,653,070	2,680,799	27,729
Federal	885,234	885,234	877,159	(8,075)
TOTAL REVENUE	4,864,644	5,764,278	5,826,556	62,278
EXPENDITURES				
Salaries	2,814,375	3,179,813	3,149,990	29,823
Employee Benefits	706,630	798,384	740,615	57,769
Purchased Services	1,490,167	1,923,156	1,892,484	30,672
Supplies	40,622	45,897	45,676	221
Equipment	16,816	19,000	9,339	9,661
Other Objects	15,577	17,600	12,733	4,867
TOTAL EXPENDITURES	5,084,187	5,983,850	5,850,837	133,013
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(219,543)	(219,572)	(24,281)	195,291
FUND BALANCE - BEGINNING OF YEAR	1,057,300	1,057,300	1,057,300	-
FUND BALANCE - END OF YEAR	\$ 837,757	\$ 837,728	\$ 1,033,019	\$ 195,291

See Notes to the Required Supplementary Information

UPPER VALLEY SPECIAL EDUCATION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15 of each year. The budget is then filed with the county auditor by August 25 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District's fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015.

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

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

To the Board of Education
Upper Valley Special Education District
Grafton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Upper Valley Special Education District's basic financial statements and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Upper Valley Special Education District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Valley Special Education District'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Responses to Findings

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

Purpose of This Report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

December 14, 2018

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

To the Board of Education
Upper Valley Special Education District
Grafton, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Upper Valley Special Education District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Upper Valley Special Education District's major federal program for the year ended June 30, 2018. The Upper Valley Special Education District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Upper Valley Special Education District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

December 14, 2018

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
US Department of Education Passed through North Dakota Department of Public Instruction: Special Education Cluster			
Special Education Grants to States	84.027	F87027A	\$ 843,325
Special Education Preschool Grants	84.173	F84173	33,834
Total Special Education Cluster			<u>877,159</u>
Total Expenditures of Federal Awards			<u>\$ 877,159</u>

NOTE 1 SCHEDULE-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to requirement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Upper Valley Special Education District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? Yes x No
 Significant deficiency(ies) indentified that are
 not considered to be material weaknesses? x Yes None Reported
 Non-compliance material to financial
 statements noted? Yes x No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes x No
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? Yes x None Reported

Type of auditor's report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are
 required to be reported in accordance with
 2 CFR 200.516(a)? Yes x No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? x Yes No

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

Section II-Financial Statement Findings

2018-001 Finding

Criteria

An appropriate system of internal controls requires that the District make a determination that 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 District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Condition

The District's auditors prepared the financial statements as of June 30, 2018. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Effect

The District currently does not maintain the working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

Recommendation

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

Management's Response

The District will continue to have the auditor prepare the financial statements; however, they will be reviewed by the Business Manager, Director and the Board of Education.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

2018-002 Finding

Criteria

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

Condition

The District has one employee who is responsible for all accounting functions involved. The employee handles all income monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statement and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the District, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

The District should separate the duties when it becomes feasible.

Management's Response

The Director reviews and approves all invoices. Only major cash receipts are from Member Districts. Receipts are issued and reviewed from time to time. Board approves all invoices at the monthly board meetings.

Section III-Federal Award Findings and Questioned Costs

There are no findings to be reported in this section.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

2017-001 Finding

Criteria

An appropriate system of internal controls requires that the District make a determination that 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 District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Condition

The District's auditors prepared the financial statements as of June 30, 2017. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Effect

The District currently does not maintain the working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures to make a determination that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America.

Recommendation

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

Management's Response

The District will continue to have the auditor prepare the financial statements; however, they will be reviewed by the Business Manager, Director and the Board of Education.

CURRENT YEAR STATUS:

See 2018-001

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

2017-002 Finding

Criteria

To provide reasonable assurance that segregation of duties take place while also taking into account the size of the District.

Condition

The District has one employee who is responsible for all accounting functions involved. The employee handles all income monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statement and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the District, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Effect

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation

The District should separate the duties when it becomes feasible.

Management's Response

The Director reviews and approves all invoices. Only major cash receipts are from Member Districts. Receipts are issued and reviewed from time to time. Board approves all invoices at the monthly board meetings.

CURRENT YEAR STATUS:

See 2018-002



UPPER VALLEY SPECIAL EDUCATION

P.O. Box 272
516 Cooper Ave.
Grafton, ND 58237

Phone: (701) 352-2574

Fax: (701) 352-0188

UPPER VALLEY SPECIAL EDUCATION DISTRICT CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

2018-001

Contact Person

Dan Juve

Planned Corrective Action

The District will implement when it becomes cost-effective.

Planned Completion Date

The planned completion date for the CAP is when it becomes cost-effective.

2018-002

Contact Person

Dan Juve

Planned Corrective Action

The District will implement when it becomes cost-effective.

Planned Completion Date

The planned completion date for the CAP is when it becomes cost-effective.

BradyMartz

To the Board of Education
Upper Valley Special Education District
Grafton, North Dakota

In planning and performing our audit of the financial statements of Upper Valley Special Education District, Grafton, North Dakota for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 14, 2018 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 14, 2018, on the financial statements of Upper Valley Special Education District, Grafton, North Dakota.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel of the District, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education and management and should not be used for any other purpose. We did not audit the District's responses included in this letter, and accordingly, express no opinion on them.

We wish to take this opportunity to thank the Board of Education and management for the opportunity to provide these services and to extend our thanks to your personnel for their cooperation and assistance during our engagement.

If you have any questions in regard to our audit, please do not hesitate to contact us.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

December 14, 2018

UPPER VALLEY SPECIAL EDUCATION DISTRICT
GRAFTON, NORTH DAKOTA
Management Letter Memorandum
For the Year Ended June 30, 2018

1. Observation

- During our review of journal entries recorded in the general ledger, it was noted these entries are not currently formally reviewed and approved by anyone outside of the individual preparing the entry. Recommend the Director to review and formally approve all journal entries as they are recorded.

- During our review of cash, it was noted that The District had a handful of old outstanding checks. Recommended that these items should be reviewed, voided, reissued or sent to the state of North Dakota as unclaimed property.

December 14, 2018

To the Board of Education
Upper Valley Special Education District

We have audited the financial statements of the governmental activities and the major fund of Upper Valley Special Education District for the year ended June 30, 2018 and have issued our report thereon dated December 14, 2018. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Upper Valley Special Education District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Upper Valley Special Education District's financial statements was:

Management's estimates include assumptions used in determining the net pension liability for cost sharing defined benefit plans. We evaluated the key factors and assumptions used to determine future liabilities for defined benefit plans in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have also attached a schedule related to journal entries made by management which although material, were made primarily to record member and state receivables as well as accounts payable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedule of the General Fund, Schedule of District's Contributions to the TFFR Pension Plan, and Schedule of District's Proportionate Share of Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenditures of Federal Awards, which accompany the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the roster of school officials, which accompany the financial statements but is not RSI. Such information has not be subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Board of Education and management of Upper Valley Special Education District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

Client: 14010 - Upper Valley Special Education District
 Engagement: 14010 - Upper Valley Special Education District
 Period Ending: 6/30/2018
 Trial Balance: GFTB
 Workpaper: 2200.00 - Adjusting Journal Entries
 Fund Level: All
 Index: All

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
To record PY adjusting journal entries				
		GL		
01 153	ACCOUNTS RECEIVABLE		89,095.09	
01 153	ACCOUNTS RECEIVABLE		75,465.24	
01 421	ACCOUNTS PAYABLE		9,585.00	
01 421	ACCOUNTS PAYABLE		16,703.40	
01 700	FUND EQUITY		23,511.83	
01 700	FUND EQUITY		89,095.09	
01 700	FUND EQUITY		12,180.78	
01 153	ACCOUNTS RECEIVABLE			95,903.52
01 153	ACCOUNTS RECEIVABLE			89,095.09
01 421	ACCOUNTS PAYABLE			16,703.40
01 421	ACCOUNTS PAYABLE			9,585.00
01 421	ACCOUNTS PAYABLE			12,180.78
01 700	FUND EQUITY			75,465.24
01 700	FUND EQUITY			16,703.40
Total			315,636.43	315,636.43
Adjusting Journal Entries JE # 2				
PBC entry - To record voiding of duplicate check made to ND United				
		5202.00		
01 101	CASH		12,678.62	
02 101	CASH		598.56	
01 479	NDEA PAYABLE			12,678.62
02 479	NDEA PAYABLE			598.56
Total			13,277.18	13,277.18
Adjusting Journal Entries JE # 3				
To record expenditures improperly coded as a reduction in accounts payable				
		5105.00		
01 000 000 225 1000 320	PROFESSIONAL-ED SERVICES		5,742.88	
01 000 000 490 1000 320	OTHER PROFESSIONAL SERVICES		1,130.32	
01 421	ACCOUNTS PAYABLE			6,873.20
Total			6,873.20	6,873.20
Total Adjusting Journal Entries			335,786.81	335,786.81
Total All Journal Entries			335,786.81	335,786.81

Client: **14010 - Upper Valley Special Education District**
 Engagement: **14010 - Upper Valley Special Education District**
 Period Ending: **6/30/2018**
 Trial Balance: **GFTB**
 Workpaper: **2215.00 - Proposed Journal Entries Report**
 Fund Level: **All**
 Index: **All**

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 401		4220.00		
To move 2017 revenue out of 2018 and record 2018 revenues to be collected in FYE 2019				
01 000 1933	EXTENDED YEAR		59,739.93	
01 153	ACCOUNTS RECEIVABLE		50,750.49	
01 000 1933	EXTENDED YEAR			50,750.49
01 700	FUND EQUITY			59,739.93
Total			110,490.42	110,490.42
Total Proposed Journal Entries			110,490.42	110,490.42
Total All Journal Entries			110,490.42	110,490.42