GRIGGS-STEELE-TRAILL
MULTIDISTRICT EDUCATIONAL SERVICES

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

OVERMOE & NELSON, LTD
Certified Public Accountants
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OVERMOE & NELSON, LTD.

Certified Public Accountants

Independent Auditor's Report

To the School Board
Griggs-Steele-Traill Multidistrict Educational Services
600 Arnold Avenue
Portland, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Griggs-Steele-Traill Multidistrict Educational Services** as of and for the year ended **June 30, 2017**, 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, each major fund and the aggregate remaining fund information of the **Griggs-Steele-Traill Multidistrict Educational Services** as of **June 30, 2017**, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 27, schedules of employer's share of net pension liability and employer contributions on pages 28-29, and notes to the required supplementary information on pages 30-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 3, 2018, on our consideration of the **Griggs-Steele-Traill Multidistrict Educational Services'** internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Griggs-Steele-Traill Multidistrict Educational Services'** internal control over financial reporting and compliance.

Overmoe & Nel, Ltd

OVERMOE & NELSON, LTD
Certified Public Accountants
Grand Forks, North Dakota

January 3, 2018

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	$ 686,822	$ 686,822
Due From Federal Sources	15,000	15,000
Due From State Sources	147,811	147,811
Due From Other Sources	31,438	31,438
Prepaid Expense	2,250	2,250
Capital Assets (Net)	36,600	36,600
Total Assets	$ 919,921	$ 919,921
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	$ 976,026	$ 976,026
Total Deferred Outflows of Resources	$ 976,026	$ 976,026
LIABILITIES		
Accounts Payable	$ 28,462	$ 28,462
Wages Payable	275,875	275,875
Employee Benefits Payable	89,775	89,775
Compensated Absences Payable	36,442	36,442
Net Pension Liability	3,597,192	3,597,192
Total Liabilities	$ 4,027,746	4,027,746
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue	$ -	$ -
Pension Related Deferred Inflows	164,834	164,834
Total Deferred Inflows of Resources	$ 164,834	$ 164,834
NET POSITION		
Net Investment in Capital Assets	$ 36,600	$ 36,600
Unrestricted	(2,333,233)	(2,333,233)
Total Net Position	$ (2,296,633)	$ (2,296,633)

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

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenue And Changes in Net Position	
	Expense	Charges for Services	Grants and Contributions	Governmental Activities	Total
PRIMARY GOVERNMENT					
Preschool Special Education	$ 160,521	$ -	$ 114,978	$ (45,543)	$ (45,543)
Speech Impaired	514,452	-	291,204	(223,248)	(223,248)
Learning Disabled	1,827,500	-	1,034,453	(793,047)	(793,047)
Occupational Therapy	100,414	-	56,839	(43,575)	(43,575)
Physical Therapy	50,329	-	28,489	(21,840)	(21,840)
Psychological Services	86,904	-	49,192	(37,712)	(37,712)
Summer School	25,315	-	14,329	(10,986)	(10,986)
Other Support Services - Student	29,086	4,867	16,464	(7,755)	(7,755)
Governance Board	53,142	-	30,081	(23,061)	(23,061)
Special Area Administrative Service	298,482	-	168,955	(129,527)	(129,527)
Support Service - Business	61,552	-	34,841	(26,711)	(26,711)
Services to Another LEA	502,848	-	284,636	(218,212)	(218,212)
Plant Operations	2,350	-	1,330	(1,020)	(1,020)
Student Transportation Services	71,588	-	95,515	23,927	23,927
Special Education Tuition	373,659	106,319	211,509	(55,831)	(55,831)
Total Primary Government	$ 4,158,142	$ 111,186	$ 2,432,815	$ (1,614,141)	$ (1,614,141)
	General Revenues				
	Member Districts			$ 1,545,699	$ 1,545,699
	Interest and Investment Earnings			1,127	1,127
	Other Revenues			884	884
	Total General Revenues			$ 1,547,710	$ 1,547,710
	Gains (Losses) and Transfers				
	Loss on Disposal of Capital Assets			(3,244)	(3,244)
	Change in Net Position			$ (69,675)	$ (69,675)
	Beginning Net Position			(2,226,958)	(2,226,958)
	Ending Net Position			$ (2,296,633)	$ (2,296,633)

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and Cash Equivalents	$ 686,822	$ -	$ 686,822
Due From Federal Sources	15,000	-	15,000
Due From State Sources	147,811	-	147,811
Due From Other Sources	17,680	-	17,680
Prepaid Expenses	2,250	-	2,250
	$ 869,563	$ -	$ 869,563
DEFERRED OUTFLOWS OF RESOURCES	$ -	$ -	$ -
Total Assets and Deferred Outflows of Resources	$ 869,563	$ -	$ 869,563
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 28,462	$ -	$ 28,462
Wages Payable	275,875	-	275,875
Employee Benefits Payable	89,775	-	89,775
Compensated Absences Payable	36,442	-	36,442
Deferred Revenue	-	-	-
Total Liabilities	$ 430,554	$ -	$ 430,554
DEFERRED INFLOWS OF RESOURCES	$ -	$ -	$ -
Total Deferred Inflows of Resources	$ -	$ -	$ -
FUND BALANCES			
Nonspendable	$ -	$ -	$ -
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	439,009	-	439,009
Total Fund Balances	$ 439,009	$ -	$ 439,009
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 869,563	$ -	$ 869,563

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

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Fund Balances - Governmental Funds		$ 439,009
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	$ 143,425	
Less accumulated depreciation	106,825	36,600
Federal, State and local payments received more than 60 days after a year end are not a current resource and therefore are not included in governmental funds until the following year		13,758
Net pension liability is not due and payable in the current period and, therefore, is not included in governmental funds		(3,597,192)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not included in governmental funds		
Deferred inflows of resources related to pensions		(164,834)
Deferred outflows of resources related to pension of $976,026 = $760,009 deferred outflows of resources related to pension expense and $216,017 deferred outflow of 2017 employer contributions related to pensions		976,026
Net Position of Governmental Activities		$ (2,296,633)

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

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Local Sources	$ 1,545,699	$ -	$ 1,545,699
State Sources	1,894,831	-	1,894,831
Federal Sources	537,984	-	537,984
Fees and Other Non-Tax Revenues	103,090	-	103,090
Other	2,011	-	2,011
Total Revenues	$ 4,083,615	$ -	$ 4,083,615
EXPENDITURES			
Current			
Preschool Special Education	$ 153,228	$ -	$ 153,228
Speech Impaired	500,031	-	500,031
Learning Disabled	1,744,769	-	1,744,769
Occupational Therapy	100,414	-	100,414
Physical Therapy	50,329	-	50,329
Psychological Services	86,904	-	86,904
Summer School	24,637	-	24,637
Other Support Services - Student	29,086	-	29,086
Governance Board	53,142	-	53,142
Special Area Administrative Service	289,933	-	289,933
Support Service - Business	61,552	-	61,552
Services to Another LEA	502,848	-	502,848
Plant Operations	2,350	-	2,350
Student Transportation Services	48,228	-	48,228
Special Education Tuition	373,659	-	373,659
Capital Outlay			
Equipment	-	-	-
Total Expenditures	$ 4,021,110	$ -	$ 4,021,110
Excess of Revenues Over Expenditures	$ 62,505	$ -	$ 62,505
OTHER FINANCING SOURCES (USES)			
Transfers From (To) Other Funds	$ -	$ -	$ -
Proceeds From Sale of Fixed Assets	-	-	-
Total Other Financing Sources (Uses)	$ -	$ -	$ -
Net Change In Fund Balance	$ 62,505	$ -	$ 62,505
Beginning Fund Balance	376,504	-	376,504
Ending Fund Balance	$ 439,009	$ -	$ 439,009

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

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Governmental Funds		$ 62,505
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	$ -	
Less accumulated depreciation	23,360	(23,360)
Loss on disposal of capital assets		(3,244)
Federal, State and local reimbursements not received within 60 days after the year end were not a current resource and, therefore, were not included in governmental funds, but all unpaid reimbursements are in the statement of net position		8,096
Governmental funds report district pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is included as pension expense		
District pension contributions	$ 203,399	
Cost of benefits earned net of employee contributions	(317,071)	(113,672)
Change in Net Position of Governmental Activities		$ (69,675)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Griggs-Steele-Traill Multidistrict Educational Services (the District) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The more significant of the District's accounting policies are described below.

Reporting Entity

The District is a multi-county special educational district governed by an appointed board. As required by U.S. GAAP, these financial statements present the District (the primary government). There were no component units as determined by financial accountability or by the nature and significance of relationships.

Financial accountability includes the ability of the primary government to appoint a voting majority to the District's governing board, and is either able to impose its will on the District or there is potential for the District to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Basis of Presentation - Government-Wide and Fund Financial Statements

The District's basic financial statements consist of government-wide financial statements (which consist of a statement of net position and a statement of activities) and fund financial statements (which provide a more detailed level of financial information).

The **government-wide financial statements** include the statement of net position and the statement of activities. These statements report financial information for the District as a whole. The effect of interfund activity has been removed from these financial statements. Individual funds are not displayed but the statements distinguish governmental activities, normally supported by taxes, grants and the District's general revenues, from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net position presents the financial position of the governmental and business-type activities, if any, of the District and its discretely presented component units, if any, at year end.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with distinct functional activity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - Government-Wide and Fund Financial Statements - continued

Program revenues include (1) charges for services which report fees and other charges to users of the District's services; (2) operating grants and contributions that finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is which function the revenues are restricted.

Other revenue sources not properly included with program revenues are reported as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenue of the District.

Fund financial statements are designed to present financial information of the District at a more detailed level. During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are provided for governmental funds and proprietary funds.

Major individual governmental funds and enterprise funds are reported in separate columns.

The District uses funds to maintain its financial records during the year. A fund is an independent fiscal and accounting entity with a self–balancing set of accounts.

Funds are classified into the following categories: governmental.

Governmental Funds

Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The District reports the difference between governmental fund assets and liabilities as fund balance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - Government-Wide and Fund Financial Statements - continued

The following are the District's major governmental funds:

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Measurement Focus

The **government-wide financial statements** are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net position. The statement of activities reports revenues and expenses.

In the **fund financial statements**, all governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on this balance sheet. The statement of revenues, expenditures and changes in fund balance reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred outflows and inflows of resources, and in the presentation of expenses versus expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Accounting - continued

Revenue resulting from **exchange transactions**, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, the phrase "available" means expected to be received within 60 days of year end.

Revenue resulting from **non-exchange transactions**, in which the District receives value without directly giving equal value in return, includes grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: interest and federal and state grants.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, which use the modified basis of accrual, receivables that will not be collected within the 60 days have been reported as deferred revenue because they are measurable but not available. Grants and entitlements received before the eligibility requirements are met (cash advances) are also recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Budgets

The District is required by North Dakota state statutes to adopt its final budget for the General Fund by August 15 and to be filed with the county auditor by August 25. Budgets may be amended during the year, except no amendment changing the taxes levied can be made after October 10. The budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. All budget appropriations lapse at year-end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year.

Cash and Cash Equivalents

Cash and Cash Equivalents include all highly liquid investments with an original maturity of less than three months.

Investments

Investments, if any, are stated at cost or amortized cost, subject to adjustment for market declines judged to be other than temporary (lower of cost or market).

Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in governmental funds. The District reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the District fund financial statements.

All capital assets are capitalized at historical cost, or estimated historical cost if historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are valued at their estimated fair market value on the date received. The District maintains the following capitalization thresholds:

Computer Equipment and Peripherals	$	3,000
Office Equipment	$	3,000
Furniture and Fixtures	$	3,000
Audio, Visual and Hearing Equipment	$	3,000
Transportation Vehicles and Equipment	$	3,000
Other Fixed Assets	$	3,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets - continued

All reported capital assets are depreciated except for construction in progress, if any, and deposits on undelivered equipment. Depreciation is computed using the straight-line method over the following useful lives:

Computer Equipment and Peripherals	3 years
Office Equipment	1 year
Furniture and Fixtures	1 year
Audio, Visual and Hearing Equipment	1 year
Transportation Vehicles and Equipment	5 years
Other Fixed Assets	1 year

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

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 future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The District has only one type of this item that qualifies for reporting in this category which arises only under the full accrual of accounting. Pension related deferred outflows of resources are reported only in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of this item that qualifies for reporting in this category which arises only under full accrual basis of accounting. Pension related deferred inflows of resources are reported only in the statement of net position.

Accrued Liabilities and Long-Term Debt

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net position, bond premiums and discounts are netted against bonds payable and bond issuance costs are reported as deferred charges. On the government-wide fund type statement of activities, bond premiums, discounts and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as an expenditure. During the year, the District had no bond premiums, discounts or issuance costs.

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Generally, **fund balance** represents the difference between the current assets and current liabilities. As per governmental accounting standards, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following classifications are used by the District:

<u>Nonspendable Fund Balance</u>
The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

<u>Restricted Fund Balance</u>
The restricted fund balance classification includes amounts where constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

<u>Committed Fund Balance</u>
The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of a simple majority of the School Board, the District's highest level of decision-making authority.

<u>Assigned Fund Balance</u>
The assigned fund balance classification includes amounts that are constrained by the School Board's *intent* to be used for specific purposes, but are neither restricted nor committed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity - continued

Unassigned Fund Balance

The unassigned fund balance classification is the residual classification for the general fund representing the fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment capital in assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available, and committed and assigned fund balances first when both these and unassigned fund balances are available.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they were 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.

Use of Estimates

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

2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial credit risk is the risk that, in event of a bank failure, the District's deposits might not be recovered. The District has one authorized depository for its deposits and investments. The District follows North Dakota state statutes which authorize the District to make deposits in the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the District to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of or an obligation insured or guaranteed by the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the State, d) Obligations of the State. As of June 30, 2017, $509,134 of the District's bank balances of $759,134 were exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging financial institution	$ 509,134

3. DUE FROM STATE AND FEDERAL SOURCES

Following are funds received after June 30, 2017, for assistance relating to the year then ended:

	State	Federal
IDEA - Education of Children with Disabilities	$ -	$ -
IDEA - Preschool	-	-
IDEA - Discretionary	-	15,000
Student Contracts	145,796	-
	$ 145,796	$ 15,000

4. CHANGE IN CAPITAL ASSETS

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 26,625	$ -	$ -	$ 26,625
Transportation Vehicles	140,544	-	(23,744)	116,800
Less Accumulated Depreciation	(103,965)	(23,360)	20,500	(106,825)
	$ 63,204	$ (23,360)	$ (3,244)	$ 36,600

4. CHANGE IN CAPITAL ASSETS - continued

Government Activities Depreciation Expense

Learning Disabled	$ -
Student Transportation Services	23,360
	$ 23,360

5. COMPENSATED ABSENCES

As required by GASB Statement No. 16 - Accounting for Compensated Absences, probable payments for vested vacation leave, plus associated payroll expenses, have been accrued at the end of each year. The District also provides benefits for sick leave. Employees having 10 or more years of credited service are entitled to $25 per day, up to a maximum of 90 days, for unused accrued sick leave. At year end accrued vacation and sick leave amounted to $15,923 and $20,519, respectively.

6. PENSION PLAN

North Dakota Teachers' Fund for Retirement

The following brief description of Teachers' Fund for Retirement (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 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.

6. PENSION PLAN - continued

Pension Benefits - continued

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

6. PENSION PLAN - continued

Pension Benefits - continued

Tier 2 - continued

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. The District has agreed to pay 9.75% of the member assessments in lieu of a salary increase.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 1/2. 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.

6. PENSION PLAN - continued

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

At June 30, 2017, the District reported a liability of $3,597,192 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2016, the District's proportion was 0.24553228 percent, which was a increase of .01434628 from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $329,688. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,989	$ 17,032
Changes of assumptions	300,470	-
Net difference between projected and actual earnings on pension plan investments	299,024	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	143,526	147,802
Employer contributions subsequent to the measurement date	216,017	-
Total	$ 976,026	$ 164,834

$216,017 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

6. PENSION PLAN - continued

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

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

2018	$ 105,328
2019	105,329
2020	178,397
2021	132,649
2022	52,389
Thereafter	21,082

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

Inflation	2.75%
Salary increase	4.25% to 14.50%, varying by service, including inflation and productivity
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for TFFR.

6. PENSION PLAN - continued

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

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

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

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	7.30%
Global Fixed Income	23%	0.90%
Global Real Assets	18%	5.40%
Cash Equivalents	1%	0.00%

6. PENSION PLAN - continued

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

Discount Rate. The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District'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) that the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	$ 4,665,828	$ 3,597,192	$ 2,707,119

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

7. COMMITMENTS AND CONTINGENCIES

The District participated in several 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, 2017 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 combined financial statements for such contingencies.

8. RISK MANAGEMENT

The District is exposed to various risks including, but not limited to, losses from worker's compensation, employee health insurance, public liability, and general property and casualty. The District has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the District's exposure to losses as follows:

Educators Professional Liability	$ 1,000,000	per occurrence and aggregate
Educators Employment Liability	$ 1,000,000	per occurrence and aggregate
Bail Bond Coverage	$ 1,000	per policy period
Corporal Punishment Defense	$ 10,000	per claim per policy period
Sexual Misconduct Defense	$ 50,000	per claim, $100,000 aggregate
General Liability	$ 2,000,000	aggregate limit, $1,000,000 per occurrence, $300,000 per premise
Products/Completed Operations	$ 2,000,000	aggregate limit
Personal/Advertising Injury	$ 1,000,000	per occurrence and aggregate
Fire Damage	$ 100,000	per occurrence and aggregate
Medical Expense	$ 5,000	per person
Personal Property	$ 95,619	or 90% replacement cost ($500 deductible, $100,000 blanket)
Property Floater	$ 5,000	debris removal, $10,000 pollutant cleanup
Hired Autos	$ 1,000,000	aggregate
Auto Coverage	$ 1,000,000	liability, $300,000 uninsured motorists, actual cash value for collision less $500 deductible
Workers Compensation	Based on rate schedule subject to $250 deductible	
Health Insurance	Various plans available through BCBS	

8. RISK MANAGEMENT - continued

There were no reductions in insurance coverage from the prior year. At no time during the years ended June 30, 2017, 2016 and 2015 did settlements exceed insurance coverage.

9. RELATED PARTY TRANSACTIONS

During the year, the Business Manager's sister provided services to the District as an employee and was paid $2,500 in wages.

10. FEDERAL AWARDS

Following is a schedule of significant federal awards received during the year:

Grant Name	Grant Award	Amount Received	Amount Expended
IDEA - Education of Children with disabilities (84.027)	$ 463,869	$ 463,869	$ 463,869
IDEA - Preschool (84.173)	9,115	9,115	9,115
IDEA - Discretionary (84.027)	22,000	22,000	-
IDEA - Reallocation (84.027)	15,000	-	15,000
IDEA - Evaluations (84.027)	50,000	50,000	50,000
	$ 559,984	$ 544,984	$ 537,984
Beginning Receivable		(22,000)	
Ending Receivable		15,000	
Beginning Deferred Revenue		-	
Revenues From Federal Awards		$ 537,984	

11. OPERATING LEASE

The District leases its facility from one of the member districts. Rent of $20,000 is due per year however, the lessor agrees to credit the District for actual costs of all electrical, fuel, sewer and water, garbage, janitorial and routine maintenance and upkeep of the premises. To the extent the foregoing expenses are less than $20,000, the difference will be paid to the member district. To the extent they exceed $20,000, the member district will reimburse the District. This agreement expired on June 30, 2017, but may be renewed if no notice is given by April 1st of each year.

On June 15, 2013, the District entered into a 60 month term lease agreement with Advanced Business Methods for the rental of a Canon IR 4035 copier/fax machine. The lease commences on July 1, 2013 and continues until June 30, 2018. Monthly lease payments of $151 are due until the lease terminates.

Future minimum lease payments are due for the next five years as follows:

June 30, 2018	$ 1,812

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget		
Beginning Fund Balance	$ 376,504	$ 376,504	$ 376,504	$ -
Resources (Inflows)				
Local Sources	$ 1,372,608	$ 1,372,608	$ 1,545,699	$ 173,091
State Sources	1,669,413	1,669,413	1,894,831	225,418
Federal Sources	537,984	537,984	537,984	-
Fees and Other Non-Tax Revenues	-	-	103,090	103,090
Other	750	750	2,011	1,261
Amounts Available for Apportionment	$ 3,957,259	$ 3,957,259	$ 4,460,119	$ 502,860
Charges to Appropriations (Outflows)				
Current				
Preschool Special Education	$ 150,153	$ 150,153	$ 153,228	$ (3,075)
Speech Impaired	563,443	563,443	500,031	63,412
Learning Disabled	1,736,345	1,736,345	1,744,769	(8,424)
Occupational Therapy	98,761	98,761	100,414	(1,653)
Physical Therapy	55,000	55,000	50,329	4,671
Psychological Services	87,500	87,500	86,904	596
Summer School	43,000	43,000	24,637	18,363
Other Support Services - Student	21,500	21,500	29,086	(7,586)
Governance Board	53,881	53,881	53,142	739
Special Area Administrative Service	300,834	300,834	289,933	10,901
Support Service - Business	54,310	54,310	61,552	(7,242)
Services to Another LEA	453,800	453,800	502,848	(49,048)
Plant Operations	2,500	2,500	2,350	150
Student Transportation Services	75,000	75,000	48,228	26,772
Special Education Tuition	110,000	110,000	373,659	(263,659)
Capital Outlay				
Equipment	-	-	-	-
Total Charges to Appropriation	$ 3,806,027	$ 3,806,027	$ 4,021,110	$ (215,083)
Ending Fund Balance	$ 151,232	$ 151,232	$ 439,009	$ 287,777

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
ND TEACHERS' FUND FOR RETIREMENT
LAST 10 FISCAL YEARS

	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.24553228%	0.23118600%	0.24904200%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 3,597,192	$ 3,023,578	$ 2,609,519
Employer's Covered-Employee Payroll	$ 1,595,284	$ 1,422,035	$ 1,444,577
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	225.49%	212.62%	180.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.20%	62.10%	66.62%
Measurement Date	06/30/16	06/30/15	06/30/14

Note: GASB Statement No. 68 requires ten years of information to be represented in this table. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

The accompanying notes are an integral part of this supplemental information.

GRIGGS-STEELE-TRAILL MULTIDISTRICT EDUCATIONAL SERVICES
SCHEDULE OF EMPLOYER CONTRIBUTIONS
ND TEACHERS' FUND FOR RETIREMENT
LAST 10 FISCAL YEARS

	2017	2016	2015
Statutorily Required Contribution	$ 203,399	$ 181,301	$ 155,291
Contributions in Relation to the Statutorily Required Contribution	$ 203,399	$ 181,301	$ 155,291
Contribution Deficiency (Excess)	$ -	$ -	$ -
Employer's Covered-Employee Payroll	$ 1,595,284	$ 1,422,035	$ 1,444,577
Contributions as a Percentage of Covered-Employee Payroll	12.75%	12.75%	10.75%
Measurement Date	06/30/16	06/30/15	06/30/14

Note: GASB Statement No. 68 requires ten years of information to be represented in this table. However, until a full ten year trend is compiled, the District will present information for those years for which information is available.

The accompanying notes are an integral part of this supplemental information.

1. BUDGETS

The District is required by North Dakota state statutes to adopt its final annual budget for the General Fund by August 15 and to be filed with the county auditor by August 25. Budgets may be amended during the year, except no amendment changing the taxes levied can be made after October 10. The budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. All budget appropriations lapse at year-end.

Budgets are adopted for the General Fund on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Expenditures are controlled at the object level for the budget.

2. EXPENDITURES EXCEED APPROPRIATIONS

During the year ended June 30, 2017, expenditures exceeded appropriations materially in the following Funds:

Fund	Amount	Explanation
General Fund:		
Preschool	$ 3,075	Caused by excess salaries
Learning Disabled	8,424	Caused by excess salaries
Occupational Therapy	1,653	Caused by excess salaries
Other Support Services	7,586	Caused by personnel development supplies
Support Service - Business	7,242	Caused by excess salaries
Services to Another LEA	49,048	Caused by excess salaries
Special Education Tuition	263,659	Caused by excess tuition costs
General Fund Total	$ 340,687	

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Formal budgetary integration is employed as a management control device during the year for the general fund. Budgetary control for funds not formally budgeted is achieved through financial management plans or as a result of established ordinances and State Statutes.

The legal level of control (the level for which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the object level within the general fund. Any change in total to a fund requires board approval.

4. CHANGES OF ASSUMPTIONS

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

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

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 School Board
Griggs-Steele-Traill Multidistrict Educational Services
600 Arnold Avenue
Portland, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and 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, each major fund, and the aggregate remaining fund information of the **Griggs-Steele-Traill Multidistrict Educational Services,** as of and for the year ended **June 30, 2017**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Griggs-Steele-Traill Multidistrict Educational Services'** 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 **Griggs-Steele-Traill Multidistrict Educational Services'** internal control. Accordingly, we do not express an opinion on the effectiveness of **Griggs-Steele-Traill Multidistrict Educational Services'** internal control.

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2017-002 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as 2017-001 and 2017-003 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Griggs-Steele-Traill Multidistrict Educational Services'** 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 disclose no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Griggs-Steele-Traill Multidistrict Educational Services Response to Findings

The **Griggs-Steele-Traill Multidistrict Educational Services'** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Griggs-Steele-Traill Multidistrict Educational Services'** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Overmoe & Nelson, Ltd

OVERMOE & NELSON, LTD
Certified Public Accountants
Grand Forks, North Dakota

January 3, 2018

Reference 2017-001 Segregation of Duties (A Significant Deficiency)

Criteria
An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled appropriately.

Condition
The Griggs-Steele-Traill Multidistrict Educational Services has one accountant responsible for most accounting functions. The business manager collects monies, issues checks, send checks to vendors, records receipts and disbursements in journals, maintains the general ledger, and prepares financial reports.

Question Costs
None

Context
This condition existed for the entire year.

Effect
The business manager performed duties that included executing and recording transactions.

Cause
There is one employee, the business manager, for multiple functions such as executing and recording transactions.

Recommendation
The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation of duties.

Views of Responsible Officials and Planned Corrective Actions
Due to the size of the District, it is not feasible to obtain proper segregation of duties. The cost of adding personnel in order to obtain a proper segregation of duties exceeds the benefit.

Reference 2017-002 Preparation of Financial Statements (A Material Weakness)

Criteria
An appropriate system of internal accounting control includes internal resources to identify all journal entries required to maintain a general ledger and to prepare full disclosure financial statements in conformity with GASB No. 34.

Reference 2017-002 Preparation of Financial Statements (A Material Weakness) - continued

Condition
The Griggs-Steele-Traill Multidistrict Educational Services' personnel prepare periodic financial information for internal use that meets the needs of management and the School Board. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by the modified cash basis of accounting for external reporting. The District is aware of the deficiency, and obtains our assistance in the preparation of the District's annual financial statements. This includes formulating the proposal of necessary adjusting journal entries to convert the fund financial statements in accordance with GASB Statement No. 34.

Question Costs
None

Context
This condition existed for the entire year.

Effect
This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected. The District's management is aware of the deficiency and addresses it by reviewing and approving the proposed adjusting journal entries and completed draft statements prior to distribution to the end users.

Cause
The District does not have the internal expertise needed to handle all aspects of external financial reporting.

Recommendation
This circumstance is not unusual for entities of the District's size. It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions
Due to cost constraints, the District will continue to have the auditor's draft the financial statements and accompanying notes to the financial statements, as well as formulate the necessary adjusting journal entries to convert the fund financial statements in accordance with GASB No. 34.

Reference 2017-003 Held Checks (A Significant Deficiency)

Criteria
An appropriate system of internal controls requires the District make a determination that financial statements are properly stated in accordance with accounting principles general accepted in the United States of America.

Condition
Griggs-Steele-Traill Multidistrict Educational Services does not have internal controls necessary to detect and correct material misstatements of account balances.

Reference 2017-003 Held Checks (A Significant Deficiency) - continued

Question Costs
The cash balance and the related payroll liabilities are understated by $75,909.

Context
This condition existed at fiscal year end.

Effect
The lack of internal controls necessary to detect and correct material misstatements resulted in the balance of cash and related payroll liabilities being understated by $75,909.

Cause
Salary related costs to be paid out subsequent to year end are recorded as cash disbursements at fiscal year end.

Recommendation
Salary related costs which relate to employment contracts for the fiscal year should be recorded as current liabilities as of fiscal year end.

Views of Responsible Officials and Planned Corrective Actions
Management will review year end closing procedures and considered revising procedures to correctly report cash balances in accordance with accounting principles generally accepted in the United States of America.