

# **AUDIT REPORT**

**JAMES RIVER SPECIAL EDUCATION COOPERATIVE**  
**Jamestown, North Dakota**

**For the Year Ended June 30, 2018**

**RATH & MEHRER, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

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JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

SPECIAL EDUCATION UNIT OFFICIALS

|                      |                   |                  |
|----------------------|-------------------|------------------|
| Jeff Fastnacht       | Ellendale         | President        |
| Tami Kramlich        | Kulm              | Vice President   |
| Mitch Carlson        | Litchville/Marion | Board Member     |
| Brian Christopherson | Medina            | Board Member     |
| Andy Dela Barre      | LaMoure           | Board Member     |
| Tyler Hanson         | Edgeley           | Board Member     |
| Rob Lech             | Jamestown         | Board Member     |
| Jerry Waagen         | Montpelier        | Board Member     |
| Rhoda Young          |                   | Director         |
| Lisa Erickson        |                   | Business Manager |

# Rath & Mehler

Certified Public Accountants

*Specializing in Governmental Auditing*

Phone: (701) 258-4560

Jayson Rath, CPA  
Ken Mehler, CPA

425 North Fifth Street  
Bismarck, ND 58501

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
James River Special Education Cooperative  
Jamestown, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the James River Special Education Cooperative, Jamestown, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the special education unit's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 special education unit'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 special education unit'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 James River Special Education Cooperative, Jamestown, North Dakota, 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 on pages 4 through 8, budgeting comparison information on pages 31 through 32 and the schedules of employer's share of net pension liability on pages 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of the special education unit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 special education unit's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

September 21, 2018

JAMES RIVER SPECIAL EDUCATION COOPERATIVE

Management's Discussion and Analysis

June 30, 2018

The Management's Discussion and Analysis (MD&A) of the James River Special Education Cooperative's financial performance provides an overall review of the special education unit's financial activities for the fiscal year ended June 30, 2018. The intent of the MD&A is to look at the special education unit's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended June 30, 2018 are as follows:

- \* Net position of the special education unit decreased \$216,498 as a result of the current year's operations.
- \* Governmental net position as of the end of the fiscal year totaled (\$2,157,477).
- \* Total revenues from all sources were \$3,407,321.
- \* Total expenses were \$3,623,819.
- \* The special education unit's general fund had \$3,407,321 in total revenues and \$3,438,083 in total expenditures. Overall, the general fund balance decreased by \$30,762 for the year ended June 30, 2018.

**USING THIS ANNUAL REPORT**

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the special education unit as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole special education unit, presenting both an aggregate view of the special education unit's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the special education unit's general fund.

## REPORTING ON THE SPECIAL EDUCATION UNIT AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the special education unit to provide programs and activities and attempt to answer the question "How did the special education unit do financially during the year ended June 30, 2018?"

The Statement of Net Position presents information on all the unit's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the special education unit is improving or deteriorating.

The Statement of Activities presents information on how the special education unit's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and/or vacation leave).

These two statements report the special education unit's net position and changes in that position. This change in net position is important because it tells the reader whether, for the special education unit as a whole, the financial position of the special education unit has improved or deteriorated. 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 special education unit reports governmental activities. Governmental activities are the activities where most of the special education unit's programs and services are reported including, but not limited to, instruction, support services and administration.

## REPORTING ON THE SPECIAL EDUCATION UNIT'S MOST SIGNIFICANT FUNDS

### Balance Sheet - Governmental Funds

The fund basis financial statements allow the special education unit to demonstrate its stewardship over and accountability for resources provided by member districts and other entities. Fund financial statements provide detailed information about the special education unit's major funds. Using the criteria established by GASB Statement No. 34, only the special education unit's general fund is considered a "major fund".

**FINANCIAL ANALYSIS OF THE SPECIAL EDUCATION UNIT AS A WHOLE**

Table I provides a summary of the special education unit's net position as of June 30, 2018. A comparative analysis of unit-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the special education unit's net position decreased by \$216,498 for the year ended June 30, 2018. Changes in net position may serve over time as a useful indicator of the special education unit's financial position.

The special education unit's unrestricted component of net position is (\$2,157,477), which includes (\$2,764,851) relating to the reporting of it's share of the unfunded liability for the North Dakota Teacher Fund for Retirement and the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$607,374 is available to meet the special education unit's ongoing obligations.

Table I  
Net Position  
As of June 30, 2018  
(With comparative totals for June 30, 2017)

|                                | 2018        | 2017        |
|--------------------------------|-------------|-------------|
| <b>Assets</b>                  |             |             |
| Current Assets                 | 634,123     | 664,886     |
| Deferred Outflows of Resources | 936,395     | 926,816     |
| <b>Liabilities</b>             |             |             |
| Current Liabilities            | 2,213       | 2,213       |
| Long-Term Liabilities          | 24,536      | 26,927      |
| Net Pension Liability          | 3,632,776   | 3,441,143   |
| Total Liabilities              | 3,659,525   | 3,470,282   |
| Deferred Inflows of Resources  | 68,470      | 62,398      |
| <b>Net Position</b>            |             |             |
| Unrestricted                   | (2,157,477) | (1,940,979) |

Table II shows the changes in net position for the fiscal year ended June 30, 2018. A comparative analysis of unit-wide data is presented for both current and prior year.

Table II  
Changes in Net Position  
As of June 30, 2018  
(With comparative totals for June 30, 2017)

|                                     | 2018      | 2017      |
|-------------------------------------|-----------|-----------|
| <b>Revenues</b>                     |           |           |
| <b>Program Revenues:</b>            |           |           |
| Charges for Services                | 1,307,301 | 1,341,936 |
| Operating Grants and Contributions  | 435,115   | 391,889   |
| <b>General Revenues:</b>            |           |           |
| Member District Assessments         | 593,022   | 754,825   |
| State Aid - Unrestricted            | 1,065,281 | 1,080,101 |
| Interest Earnings and Other Revenue | 6,602     | 3,532     |
| Total Revenues                      | 3,407,321 | 3,572,283 |
| <b>Expenses</b>                     |           |           |
| Tuition                             | 61,252    | 89,268    |
| Special Programs                    | 6,258     | 13,200    |
| General Administration              | 29,392    | 89,993    |
| Special Area Administration         | 377,487   | 296,254   |
| Coordinators/Facilitators           | 376,644   | 398,104   |
| Special Education Instruction       | 2,311,873 | 2,290,629 |
| Support Services to Students        | 432,489   | 429,078   |
| Support Services to Staff           | 18,819    | 24,340    |
| Preschool Grant                     | 9,604     | 14,890    |
| Total Expenses                      | 3,623,819 | 3,645,757 |
| Net Change in Position              | (216,498) | (73,474)  |



Member assessments constituted 17%, unrestricted state aid 31%, operating grants and contributions 13% and charges for services made up 38% of the total revenues of governmental activities of the special education unit for the fiscal year ended June 30, 2018.

Special area administration constituted 10%, special education instruction 64% and support services to students 12% of total expenses for governmental activities during the fiscal year ended June 30, 2018.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by member assessments and other unrestricted revenues.

Table III  
Total and Net Cost of Services  
As of June 30, 2018

|                               | Total Cost<br>Year Ended<br><u>June 30, 2018</u> | Net Cost<br>Year Ended<br><u>June 30, 2018</u> |
|-------------------------------|--|--|
| Tuition                       | 61,252   | 61,252   |
| Special Programs              | 6,258  | 8  |
| General Administration        | 29,392   | 29,392   |
| Special Area Administration   | 377,487  | 154,111  |
| Coordinators/Facilitators     | 376,644  | 376,644  |
| Special Education Instruction | 2,311,873  | 827,505  |
| Support Services to Students  | 432,489  | 432,489  |
| Support Services to Staff     | 18,819   |  |
| Preschool Grant               | 9,604  |  |
| <br>Total Expenses            | <br><u>3,623,819</u><br>=====                    | <br><u>1,881,402</u><br>=====                  |

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the special education unit's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the special education unit's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The special education unit's general fund had total revenue of \$3,407,321 and expenditures of \$3,438,083 for the year ended June 30, 2018. As of June 30, 2018, the unassigned fund balance of the special education unit's general fund was \$631,910.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal year 2018, the special education unit did not amend the general fund budget.

Actual revenue for the year ended June 30, 2018 was \$32,666 less than budgeted. Actual expenditures for the year ended June 30, 2018 were under budget by \$164,576.

## **CAPITAL ASSETS**

As of June 30, 2018, the special education unit had \$0 invested in capital assets.

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

## **DEBT ADMINISTRATION**

As of June 30, 2018, the special education unit had \$24,536 in outstanding debt. During fiscal year 2018, the special education unit issued no new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 to the audited financial statements which follow this analysis.

## **CONTACTING THE SPECIAL EDUCATION UNIT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our member school districts, parents and creditors with a general overview of the special education unit's finances and to show the special education unit's accountability for the money it receives to provide the best possible education to all students served by the James River Special Education Cooperative. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Lisa Erickson, Business Manager, James River Special Education Cooperative, Jamestown, ND 58402; phone 701-252-3376.

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Statement of Net Position  
June 30, 2018

|   | Governmental<br>Activities |
|---|----------------------------|
| <b><u>ASSETS:</u></b>                         |                            |
| Cash  | 594,184.40                 |
| Intergovernmental Receivables                 | 39,939.05                  |
| <b>Total Assets</b>                           | <b>634,123.45</b>          |
| <b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b> |                            |
| Changes in Resources Related to Pensions      | 936,395.00                 |
| <b><u>LIABILITIES:</u></b>                    |                            |
| Payroll Benefits Payable                      | 2,212.97                   |
| Long-Term Liabilities:                        |                            |
| Due After One Year:                           |                            |
| Compensated Absences Payable                  | 24,536.00                  |
| Net Pension Liability                         | 3,632,776.00               |
| <b>Total Liabilities</b>                      | <b>3,659,524.97</b>        |
| <b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>  |                            |
| Changes in Resources Related to Pensions      | 68,470.00                  |
| <b><u>NET POSITION:</u></b>                   |                            |
| Unrestricted                                  | <b>(2,157,476.52)</b>      |

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

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Statement of Activities  
For the Year Ended June 30, 2018

|  | Program Revenues |                         | Net (Expense)<br>Revenue and<br>Changes<br>in Net Position |
|--|------------------|-------------------------|--|
|  | Expenses         | Charges for<br>Services | Operating Grants<br>and Contributions                      |
|  |                  |                         | Governmental<br>Activities                                 |
| <u>Governmental Activities:</u>                          |                  |                         |  |
| Tuition  | 61,252.27        |                         | (61,252.27)  |
| Special Programs   | 6,258.13         |                         | (8.13)   |
| General Administration                                   | 29,392.32        |                         | (29,392.32)  |
| Special Area Administration<br>Coordinators/Facilitators | 377,486.74       | 223,375.44              | (154,111.30)   |
| Special Education Instruction                            | 376,643.79       |                         | (376,643.79)   |
| Support Services to Students                             | 2,311,872.61     | 1,083,925.63            | (827,505.18)   |
| Support Services to Staff                                | 432,489.48       |                         | (432,489.48)   |
| Preschool Grant  | 18,819.03        |                         | 18,819.03  |
|  | 9,604.40         |                         | 9,604.40   |
| <br>   |                  |                         |  |
| Total Governmental Activities                            | 3,623,818.77     | 1,307,301.07            | 435,115.23   |
|  |                  |                         | (1,881,402.47)   |
| <u>General Revenues:</u>                                 |                  |                         |  |
| Member district assessments                              |                  |                         | 593,022.08   |
| State aid - not restricted to specific program           |                  |                         | 1,065,280.71   |
| Earnings on investments and other revenue                |                  |                         | 6,601.70   |
| Total General Revenues                                   |                  |                         | 1,664,904.49   |
| Change in Net Position                                   |                  |                         | (216,497.98)   |
| Net Position - July 1                                    |                  |                         | (1,940,978.54)   |
| Net Position - June 30                                   |                  |                         | (2,157,476.52)   |

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

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Balance Sheet  
Governmental Fund  
June 30, 2018

|   | <u>General</u> |
|---|----------------|
| <b><u>ASSETS:</u></b>                       |                |
| Cash  | 594,184.40     |
| Intergovernmental Receivables               | 39,939.05      |
|   | <hr/>          |
| Total Assets                                | 634,123.45     |
|   | =====          |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                |
| <b><u>Liabilities:</u></b>                  |                |
| Payroll Benefits Payable                    | 2,212.97       |
|   | <hr/>          |
| <b><u>Fund Balance:</u></b>                 |                |
| Unassigned                                  | 631,910.48     |
|   | <hr/>          |
| Total Liabilities and Fund Balance          | 634,123.45     |
|   | =====          |

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

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Reconciliation of Governmental Fund Balance Sheet  
to the Statement of Net Position  
For the Year Ended June 30, 2018

|                    |  |            |
|--------------------|--|------------|
| Total Fund Balance |  | 631,910.48 |
|--------------------|--|------------|

Total net position reported for government activities in the statement of net position is different because:

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

|  |             |            |
|--|-------------|------------|
| Total Deferred Outflows of Resources       | 936,395.00  |            |
| Total Deferred Inflows of Resources        | (68,470.00) |            |
|  |             |            |
| Net Deferred Outflows/Inflows of Resources |             | 867,925.00 |

Long-term liabilities applicable to the special education unit's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities -both current and long term- are reported in the statement of net position. Balances at June 30, 2018 are:

|                              |                |                |
|------------------------------|----------------|----------------|
| Compensated Absences Payable | (24,536.00)    |                |
| Net Pension Liability        | (3,632,776.00) |                |
|                              |                |                |
| Total Long-Term Liabilities  |                | (3,657,312.00) |

|   |  |                         |
|---|--|-------------------------|
| Total Net Position of Governmental Activities |  | (2,157,476.52)<br>===== |
|---|--|-------------------------|

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

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Statement of Revenues, Expenditures and Changes  
in Fund Balance - Governmental Fund  
For the Year Ended June 30, 2018

|                                   | General             |
|-----------------------------------|---------------------|
| <u>Revenues:</u>                  |                     |
| Local Sources                     | 1,906,924.85        |
| State Sources                     | 1,122,807.12        |
| Federal Sources                   | 377,588.82          |
| <b>Total Revenues</b>             | <b>3,407,320.79</b> |
| <u>Expenditures:</u>              |                     |
| Current:                          |                     |
| Tuition                           | 61,252.27           |
| Special Programs                  | 6,258.13            |
| General Administration            | 29,392.32           |
| Special Area Administration       | 310,493.74          |
| Coordinators/Facilitators         | 376,643.79          |
| Special Education Instruction     | 2,193,130.11        |
| Support Services to Students      | 432,489.48          |
| Support Services to Staff         | 18,819.03           |
| Preschool Grant                   | 9,604.40            |
| <b>Total Expenditures</b>         | <b>3,438,083.27</b> |
| <b>Net Change in Fund Balance</b> | <b>(30,762.48)</b>  |
| <b>Fund Balance - July 1</b>      | <b>662,672.96</b>   |
| <b>Fund Balance - June 30</b>     | <b>631,910.48</b>   |

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

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures  
and Changes in Fund Balance to the Statement of Activities  
For the Year Ended June 30, 2018

|  |              |              |
|--|--------------|--------------|
| Net Change in Fund Balance   |              | (30,762.48)  |
| <p>The change in net position reported for governmental activities in the statement of activities is different because:</p> <p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.</p> |              |              |
| Net Decrease in Compensated Absences   | 2,390.50     |              |
| Net Increase to Pension Expense  | (188,126.00) | (185,735.50) |
|  |              |              |
| Change in Net Position of Governmental Activities  |              | (216,497.98) |
|  |              | =====        |

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



JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Notes to the Financial Statements  
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the James River Special Education Cooperative as a reporting entity.

B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, James River Special Education Cooperative. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the special education unit's governmental activities. Direct expenses are those that are specifically associated with program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the special education unit's fund. The emphasis of fund financial statements is on the major governmental fund.

The special education unit reports the following major governmental fund:

*General Fund.* This is the special education unit's primary operating fund. It accounts for all financial resources of the general government.

C. Measurement Focus, Basis of Accounting  
and Financial Statement Presentation

*Government-wide Financial Statements:* The government-wide financial statements are reported using the economic resources measurement focus. These financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the special education unit gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements:* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The special education unit considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the special education unit funds certain programs by a combination of specific cost-reimbursements grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted components of net position available to finance the program. It is the special education unit's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Cash

Cash includes amounts in demand deposits and money market accounts.

#### E. Capital Assets

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

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

|           |         |
|-----------|---------|
| Vehicles  | 7 years |
| Equipment | 7 years |

#### F. Compensated Absences

Vested or accumulated sick leave is reported in the government-wide statement of net position. Annual sick leave shall be earned at 10 days per year, accumulative to 90 days for teachers and 130 days for administrative staff. Compensation at a rate of \$25 per day will be given for unused sick leave to retiring staff with 15 years of service with the unit and has reached the rule of 85 or 90, whichever applies.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

#### G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material. In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### H. Pensions

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

## I. 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."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the special education unit is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the special education unit or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the governing board through the adoption of a resolution. The governing board also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the special education unit's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The special education unit reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the special education unit's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the special education unit's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the special education unit has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

## J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

## Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At June 30, 2018 the special education unit's carrying amount of deposits was \$594,184 and the bank balance was \$805,268. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$555,268 was collateralized with securities held by the pledging financial institution's agent in the government's name.

### Credit Risk

The special education unit may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (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.
- (4) Obligations of the State.

### Concentration of Credit Risk

The special education unit does not have a limit on the amount the special education unit may invest in any one issuer.

Note 3 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of reimbursements due for expenses in the operation of various special education programs. This amount consists of a mix of state and federal dollars.

Note 4 CAPITAL ASSETS

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

|  | Balance<br>July 1 | Increases | Decreases     | Balance<br>June 30 |
|--|-------------------|-----------|---------------|--------------------|
| Governmental Activities:                       |                   |           |               |                    |
| <i>Capital assets</i>                          |                   |           |               |                    |
| <i>being depreciated:</i>                      |                   |           |               |                    |
| Vehicles                                       | 14,000            |           | 14,000        |                    |
| Equipment                                      | 29,729            |           | 29,729        |                    |
| <b>Total</b>                                   | <b>43,729</b>     |           | <b>43,729</b> |                    |
| <i>Less accumulated depreciation for:</i>      |                   |           |               |                    |
| Vehicles                                       | 14,000            |           | 14,000        |                    |
| Equipment                                      | 29,729            |           | 29,729        |                    |
| <b>Total</b>                                   | <b>43,729</b>     |           | <b>43,729</b> |                    |
| Governmental Activities<br>Capital Assets, Net | -0-               | -0-       | -0-           | -0-                |
|  | =====             | =====     | =====         | =====              |

Note 5 PAYROLL BENEFITS PAYABLE

Payroll benefits payable consists of benefits owed to federal, state and private agencies for amounts withheld from employee's salaries as of June 30 but not yet remitted.

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended June 30, 2018, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

|                        | Balance<br>July 1 | Increases | Decreases | Balance<br>June 30 | Due Within<br>One Year |
|------------------------|-------------------|-----------|-----------|--------------------|------------------------|
| Compensated Absences * | 26,927            | -0-       | 2,391     | 24,536             | -0-                    |
|                        | =====             | =====     | =====     | =====              | =====                  |

\* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Note 7 RISK MANAGEMENT

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

In 1986, state agencies and political 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 special education unit pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$50,485 for public assets.

The special education unit also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The special education unit pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the special education unit with a blanket fidelity bond coverage in the amount of \$972,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The special education unit has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 8 PENSION PLANS

1. North Dakota Teachers Fund for Retirement

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

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

Responsibility for administration of the TFFR benefits program is assigned to a Board comprised of seven members. The Board consists of the State Treasurer, the Superintendent of Public Instruction and five members appointed by the Governor.

**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.

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.

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.

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 for all three categories are determined by NDCC Section 15-39.1-10. *Tier 1* 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. *Tier 2* 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 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 70.5. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

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

At June 30, 2018, the James River Special Education Cooperative reported a liability of \$2,925,052 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 June 30, 2017 the district's proportion was .212959 percent, which was an increase of .007324 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$309,963. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
|   | -----                                | -----                               |
| Differences between expected and actual experience  | 11,220                               | 31,931                              |
| Changes in assumptions  | 208,487                              |                                     |
| Net difference between projected and actual earnings on pension plan investments                              | 40,403                               |                                     |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 148,377                              |                                     |
| District contributions subsequent to the measurement date (see below)   | 188,829                              |                                     |
| <b>Total</b>  | <u>597,316</u>                       | <u>31,931</u>                       |
|   | =====                                | =====                               |

\$188,829 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, 2019.

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

| Year ended<br>June 30:<br>----- |         |
|---------------------------------|---------|
| 2019                            | 78,879  |
| 2020                            | 142,253 |
| 2021                            | 102,574 |
| 2022                            | 32,963  |
| 2023                            | 10,381  |
| Thereafter                      | 9,507   |

**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,<br>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 on 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 tables with generational improvement.

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

| Asset Class         | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------|-------------------|--|
| Global Equities     | 58%               | 6.70%                                  |
| Global Fixed Income | 23%               | 0.80%                                  |
| Global Real Assets  | 18%               | 5.20%                                  |
| Cash Equivalents    | 1%                | 0.00%                                  |

**Discount rate.** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2017, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**Sensitivity of the district'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) than the current rate:

|   | 1% Decrease<br>(6.75%) | Current Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|---|------------------------|-------------------------|------------------------|
| The district's proportionate share of the net pension liability | 3,888,909              | 2,925,052               | 2,122,671              |

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

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

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

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

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

### **Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

### **Death and Disability Benefits**

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

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

### **Refunds of Member Account Balance**

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

### **Member and Employer Contributions**

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

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

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

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

At June 30, 2018, the James River Special Education Cooperative reported a liability of \$707,724 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the district's proportion was .044031 percent, which was an increase of .000067 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the district recognized pension expense of \$102,118. At June 30, 2018 the district reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

|   | Deferred<br>Outflows<br>of Resources<br>----- | Deferred<br>Inflows<br>of Resources<br>----- |
|---|---|--|
| Differences between expected and actual experience  | 4,207   | 3,448  |
| Changes in assumptions  | 290,214                                       | 15,962                                       |
| Net difference between projected and actual earnings on pension plan investments                              | 9,518   |  |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,743   | 17,129                                       |
| District contributions subsequent to the measurement date (see below)   | 32,397  |  |
| <b>Total</b>  | <u>339,079</u><br>=====                       | <u>36,539</u><br>=====                       |

\$32,397 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, 2019.

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

| Year ended<br>June 30:<br>----- |        |
|---------------------------------|--------|
| 2019                            | 56,688 |
| 2020                            | 69,748 |
| 2021                            | 59,966 |
| 2022                            | 54,185 |
| 2023                            | 29,556 |
| Thereafter                      | 0      |

**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        | 3.50%             |               |
| Salary increases | Service at        | Increase Rate |
|                  | Beginning of Year |               |
|                  | -----             | -----         |
|                  | 0                 | 15.00%        |
|                  | 1                 | 10.00%        |
|                  | 2                 | 8.00%         |
|                  | Age *             |               |
|                  | -----             |               |
|                  | Under 36          | 8.00%         |
|                  | 36 - 40           | 7.50%         |
|                  | 41 - 49           | 6.00%         |
|                  | 50+               | 5.00%         |

\* Age-based salary increase rates apply for employees with three or more years of service.

Investment rate of return 7.75%, net of investment expenses.  
 Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

| Asset Class                 | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|-------------------|--|
| -----                       | -----             | -----                                  |
| Domestic Equity             | 31%               | 6.05%                                  |
| International Equity        | 21%               | 6.70%                                  |
| Private Equity              | 5%                | 10.20%                                 |
| Domestic Fixed Income       | 17%               | 1.43%                                  |
| International Equity Income | 5%                | -0.45%                                 |
| Global Real Assets          | 20%               | 5.16%                                  |
| Cash Equivalents            | 1%                | 0.00%                                  |

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

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

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

**Sensitivity of the district'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 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

|   | 1% Decrease<br>(5.44%) | Current Rate<br>(6.44%) | 1% Increase<br>(7.44%) |
|---|------------------------|-------------------------|------------------------|
|   | -----                  | -----                   | -----                  |
| The district's proportionate share of the net pension liability | 960,755                | 707,723                 | 497,210                |

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



JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2018

|                                    | Original<br>Budget  | Final<br>Budget     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------|---------------------|---------------------|---------------------|---|
| <b>Revenues:</b>                   |                     |                     |                     |   |
| Local Sources                      | 1,888,985.08        | 1,888,985.08        | 1,906,924.85        | 17,939.77   |
| State Sources                      | 1,173,412.61        | 1,173,412.61        | 1,122,807.12        | (50,605.49)   |
| Federal Sources                    | 377,588.82          | 377,588.82          | 377,588.82          |   |
| <b>Total Revenues</b>              | <b>3,439,986.51</b> | <b>3,439,986.51</b> | <b>3,407,320.79</b> | <b>(32,665.72)</b>                                      |
| <b>Expenditures:</b>               |                     |                     |                     |   |
| <b>Current:</b>                    |                     |                     |                     |   |
| Tuition                            | 112,000.00          | 112,000.00          | 61,252.27           | 50,747.73   |
| Special Programs                   | 6,250.00            | 6,250.00            | 6,258.13            | (8.13)  |
| General Administration             | 48,222.00           | 48,222.00           | 29,392.32           | 18,829.68   |
| Special Area Administration        | 322,446.00          | 322,446.00          | 310,493.74          | 11,952.26   |
| Coordinators/Facilitators          | 384,131.00          | 384,131.00          | 376,643.79          | 7,487.21  |
| Special Education Instruction      | 2,241,279.37        | 2,241,279.37        | 2,193,130.11        | 48,149.26   |
| Support Services to Students       | 451,330.00          | 451,330.00          | 432,489.48          | 18,840.52   |
| Support Services to Staff          | 27,396.70           | 27,396.70           | 18,819.03           | 8,577.67  |
| Preschool Grant                    | 9,604.40            | 9,604.40            | 9,604.40            |   |
| <b>Total Expenditures</b>          | <b>3,602,659.47</b> | <b>3,602,659.47</b> | <b>3,438,083.27</b> | <b>164,576.20</b>                                       |
| <b>Net Change in Fund Balances</b> | <b>(162,672.96)</b> | <b>(162,672.96)</b> | <b>(30,762.48)</b>  | <b>131,910.48</b>                                       |
| <b>Fund Balance - July 1</b>       | <b>662,672.96</b>   | <b>662,672.96</b>   | <b>662,672.96</b>   |   |
| <b>Fund Balance - June 30</b>      | <b>500,000.00</b>   | <b>500,000.00</b>   | <b>631,910.48</b>   | <b>131,910.48</b>                                       |

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Notes to the Budgetary Comparison Schedule  
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the director prepares the special education unit budget. The special education unit's budget is prepared for the general fund by function and activity on the modified accrual basis of accounting. The budget includes proposed expenditures and the means of financing them. The board reviews the budget, may make revisions and approves it. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board. All annual appropriations lapse at year-end.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the general fund budget during the year ended June 30, 2018.

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

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

|   | 2018      | 2017      | 2016      | 2015      |
|---|-----------|-----------|-----------|-----------|
| District's proportion of the net pension liability  | 0.212959% | 0.205635% | 0.203633% | 0.195322% |
| District's proportionate share of the net pension liability   | 2,925,052 | 3,012,671 | 2,663,225 | 2,046,628 |
| District's covered-employee payroll   | 1,437,415 | 1,336,061 | 1,252,559 | 1,132,973 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 203.49%   | 225.49%   | 212.62%   | 180.64%   |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 63.2%     | 59.2%     | 62.1%     | 66.6%     |

Schedule of Employer Contributions  
ND Teacher's Fund for Retirement  
Last 10 Fiscal Years\*

|  | 2018      | 2017      | 2016      | 2015      |
|--|-----------|-----------|-----------|-----------|
| Statutorily required contribution                                  | 183,270   | 170,348   | 159,701   | 121,795   |
| Contributions in relation to the statutorily required contribution | (183,270) | (170,348) | (159,701) | (121,795) |
| Contribution deficiency (excess)                                   | 0         | 0         | 0         | 0         |
| District's covered-employee payroll                                | 1,437,415 | 1,336,061 | 1,252,559 | 1,132,973 |
| Contributions as a percentage of covered-employee payroll          | 12.75%    | 12.75%    | 12.75%    | 10.75%    |

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

- For changes of assumptions, see Note 8 to the financial statements.

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

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

|   | 2018      | 2017      | 2016      | 2015      |
|---|-----------|-----------|-----------|-----------|
|   | -----     | -----     | -----     | -----     |
| District's proportion of the net pension liability  | 0.044031% | 0.043964% | 0.043808% | 0.047760% |
| District's proportionate share of the net pension liability   | 707,724   | 428,472   | 297,887   | 303,143   |
| District's covered-employee payroll   | 453,132   | 447,616   | 390,280   | 405,201   |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 156.18%   | 95.72%    | 76.33%    | 74.81%    |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 61.98%    | 70.46%    | 77.15%    | 77.70%    |

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

|  | 2018     | 2017     | 2016     | 2015     |
|--|----------|----------|----------|----------|
|  | -----    | -----    | -----    | -----    |
| Statutorily required contribution                                  | 32,263   | 31,870   | 27,788   | 27,290   |
| Contributions in relation to the statutorily required contribution | (32,263) | (31,870) | (27,788) | (27,290) |
| Contribution deficiency (excess)                                   | 0        | 0        | 0        | 0        |
| District's covered-employee payroll                                | 453,132  | 447,616  | 390,280  | 405,201  |
| Contributions as a percentage of covered-employee payroll          | 7.12%    | 7.12%    | 7.12%    | 6.73%    |

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

- For changes of assumptions, see Note 8 to the financial statements.

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
James River Special Education Cooperative  
Jamestown, 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 James River Special Education Cooperative, Jamestown, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the special education unit's basic financial statements, and have issued our report thereon dated September 21, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the special education unit's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the special education unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the special education unit's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

## Compliance and Other Matters

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

## Special Education Unit's Response to Findings

The special education unit's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The special education unit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

September 21, 2018

JAMES RIVER SPECIAL EDUCATION COOPERATIVE  
Jamestown, North Dakota

Schedule of Findings and Responses  
For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

|                         |            |
|-------------------------|------------|
| Governmental Activities | Unmodified |
| Major Governmental Fund | Unmodified |

Internal control over financial reporting:

|   |             |                     |
|---|-------------|---------------------|
| * Material weakness(es) identified?                   | _____ Yes   | _____ X No          |
| * Significant deficiency(ies) identified?             | _____ X Yes | _____ None Reported |
| Noncompliance Material to financial statements noted? | _____ Yes   | _____ X No          |

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

*Condition:* The special education unit has one person responsible for most accounting functions.

*Criteria:* There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the special education unit.

*Effect:* There is limited segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the special education unit's financial condition.

*Recommendation:* Due to the size of the special education unit, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.

## 2. Financial Statement Preparation

*Condition:* The special education unit's financial statements as of June 30, 2018 are prepared by the special education unit's external auditors.

*Criteria:* A good system of internal controls requires the special education unit to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the special education unit must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend the special education unit obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the special education unit to prepare its own financial statements.