# SOURIS VALLEY SPECIAL SERVICES
# MINOT, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

## TABLE OF CONTENTS

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Souris Valley Special Services
Minot, North Dakota

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the fiduciary fund of Souris Valley Special Services as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Souris Valley Special Services' basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the fiduciary fund of Souris Valley Special Services as of June 30, 2017, 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 budgetary comparison schedule-general fund, schedule of employer contributions, and schedule of employer's proportionate share of net pension liability on pages 31-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Souris Valley Special Services' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U. S *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basics financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards,* we have also issued our report dated October 23, 2017, on our consideration of Souris Valley Special Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Souris Valley Special Services' internal control over financial reporting and compliance.

Brady Martz

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

October 23, 2017

**SOURIS VALLEY SPECIAL SERVICES**
STATEMENT OF NET POSITION
JUNE 30, 2017

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 924,700 |
| Investments | 228,394 |
| Due from other governments | 355,650 |
| Total current assets | 1,508,744 |
| Non-current assets: | |
| Capital assets | 24,919 |
| Less: accumulated depreciation | (4,866) |
| Total non-current assets | 20,053 |
| Total assets | 1,528,797 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred pension outflows | 1,034,409 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 21,074 |
| Contracts payable | 198,139 |
| Accrued payroll taxes and benefits | 51,225 |
| Total current liabilities | 270,438 |
| Long-term liabilities: | |
| Net pension liability | 4,503,314 |
| Total liabilities | 4,773,752 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred pension inflows | 408,072 |
| **NET POSITION** | |
| Net investment in capital assets | 20,053 |
| Unrestricted | (2,638,671) |
| Total net (deficit) position | $ (2,618,618) |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| | | Program Revenue | | Net (Expense) Revenues and Changes in Net Position |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Governmental Activities** |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Special education | $ 698,047 | $ 499,179 | $ 159,999 | $ (38,869) |
| Support Services: | | | | |
| Pupil services | 1,288,497 | 15,014 | 1,082,225 | (191,258) |
| Instructional staff services | 228,876 | - | 228,876 | - |
| Administration services | 96,366 | - | 87,887 | (8,479) |
| Business services | 148,819 | - | 148,819 | - |
| Operations and maintenance | 58,239 | - | 58,239 | - |
| Total support services | 1,820,797 | 15,014 | 1,606,046 | (199,737) |
| Total governmental activities | $ 2,518,844 | $ 514,193 | $ 1,766,045 | (238,606) |
| | General revenues: | | | |
| | Miscellaneous | | | 2,380 |
| | Change in net position | | | (236,226) |
| | Net (deficit) position - beginning of year | | | (2,382,392) |
| | Net (deficit) position - end of year | | | $ (2,618,618) |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

| | General Fund |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 924,698 |
| Investments | 228,394 |
| Due from other governments | 355,650 |
| Total assets | $ 1,508,742 |
| **LIABILITIES AND FUND BALANCES** | |
| Liabilities: | |
| Accounts payable | $ 21,074 |
| Contracts payable | 198,139 |
| Accrued payroll taxes and benefits | 51,225 |
| Total liabilities | 270,438 |
| Fund balances: | |
| Unassigned | 1,238,304 |
| Total liabilities and fund balances | $ 1,508,742 |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2017

| | | |
|---|---|---|
| Total governmental funds balance | $ | 1,238,304 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. | | 20,053 |
| Net deferred outflows/(inflows) of resources relating to the cost sharing of defined benefit plans in the governmental activities that are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds. | | |
| Deferred Inflows - PERS | | (168,532) |
| Deferred Inflows - TFFR | | (239,540) |
| Deferred Outflows- PERS | | 327,667 |
| Deferred Outflows - TFFR | | 706,744 |
| Long-term liabilities are not due and payable in the current year and therefore, are not recorded as liabilities in the governmental funds: | | |
| Net pension liability | | (4,503,314) |
| Net (deficit) position of governmental activities | $ | (2,618,618) |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | General Fund |
|---|---|
| **REVENUES** | |
| Local sources | $ 514,193 |
| Federal sources | 1,766,045 |
| Other sources | 2,585 |
| Total revenues | 2,282,823 |
| **EXPENDITURES** | |
| Instruction: | |
| Special education | 698,047 |
| Support services: | |
| Pupil services | 1,040,113 |
| Instructional staff services | 228,876 |
| Administration services | 108,968 |
| Business services | 151,126 |
| Operations and maintenance | 58,239 |
| Total support services | 1,587,322 |
| Total Expenditures | 2,285,369 |
| Excess of revenues over expenditures | (2,546) |
| Fund balances - beginning of year | 1,240,850 |
| Fund balances - end of year | $ 1,238,304 |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds: | $ | (2,546) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activiites, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | | |
| Depreciation expense | | (2,492) |
| Purchase of capital assets | | 15,094 |
| Change in net pension liability | | (319,382) |
| Changes in deferred outflows and inflows of resources related to net pension liability | | 73,305 |
| Some revenues will not be collected for several months after the District's year-end. These revenues are not considered "available" revenues in the governmental funds. These consist of net change in accrued interest income. | | (205) |
| Change in net (deficit) position of governmental activities | $ | (236,226) |

SEE NOTES TO THE FINANCIAL STATEMENTS

**SOURIS VALLEY SPECIAL SERVICES**
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2017

| | | Agency Fund |
|---|---|---|
| **ASSETS** | | |
| Due from other governments | | 194,645 |
| Total assets | $ | 194,645 |
| | | |
| **LIABILITIES** | | |
| Due to other governments | $ | 194,645 |

SEE NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principal Activity

Souris Valley Special Services (SVSS) was created to provide special education to students of its member school districts, with some services also being provided on a contract basis to non-member districts. The North Dakota State Legislature enacted laws which provide that "handicapped children" must receive an education comparable with all children. In order to provide the best possible program, these districts banded together in a common group. Board members are appointed by the member districts to administer the combined program. The Board contracts administrative staff to operate the program. SVSS accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

### Reporting entity

The accompanying financial statements present the activities of SVSS. SVSS has considered all potential component units for which SVSS is financially accountable and other organizations for which the nature and significance of their relationships with SVSS such that exclusion would cause SVSS'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 board and (1) the ability of SVSS 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 SVSS.

Based on these criteria, there are no component units to be included within SVSS as a reporting entity.

### Accounting Standards

SVSS follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities.

### Basis of Presentation

SVSS' basic financial statements consist of government-wide and fund financial statements.

<u>Government-wide Financial Statements</u>
The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about SVSS as a whole, and include the financial activities of the reporting entity, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of SVSS at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of SVSS' governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of SVSS. The comparison of direct-expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of SVSS.

Fund Financial Statements
In order to aid financial management and to demonstrate legal compliance, SVSS segregates transactions related to certain functions or activities into separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

**Fund accounting**

SVSS' funds consist of the following:

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

*General fund* - The general fund is the general operating fund of SVSS and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds (not included in government-wide statements)
Fiduciary funds reporting focuses on net position and changes in net position. SVSS' only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Measurement Focus and Basis of Accounting**

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

*Government-wide Financial Statements*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of SVSS are included in the statement of net position.

*Fund Financial Statements*

The governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources and uses of current financial resources.

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

Fiduciary funds also use the economic resources measurement focus.

**Basis of Accounting**

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

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

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

**Revenues-Exchange and Non-Exchange Transactions**

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

Non-exchange transactions include transactions in which SVSS receives value without directly providing value in return. Non-exchange transactions include grants, entitlement, and donations.

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

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

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

**Expenses and Expenditures**

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

**Budgets and Budgetary Accounting**

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

Budgets for the general fund are prepared on the modified accrual basis of accounting, which is the same basis used for financial reporting purposes.

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

SVSS considers all highly liquid investments with an original maturity of three months of less when purchased to be cash equivalents.

**Investments**

Investments are recorded at market value. North Dakota state statute authorizes SVSS to invest its surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentality's, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the above underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation of the state, d) Obligations of the state.

### Pensions

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

### Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during SVSS' fiscal year.

SVSS has established a capitalization threshold of $5,000. Donated capital assets are recorded at their fair market values at the date received. SVSS does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

All of SVSS' capital assets will be depreciated over their estimated useful lives on a straight-line basis. SVSS has established the following useful lives:

| | |
|---|---|
| Vehicles | 5 years |
| Equipment | 10 years |

### Compensated Absences

Vacation benefits are accrued as a liability using the vesting method as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that SVSS will compensate the employees for the benefits through paid time off or some other means. The amount is based on accumulated vacation leave and employee wages in effect at fiscal year-end, taking into consideration any limitations included in SVSS's vacation policy.

### Accrued Liabilities and Long-term Obligations

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

### Net Position

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

**Fund Balance Classifications**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – consists of amounts that are not in a spendable form, such as inventory and prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Public Instruction.

*Committed* – consists of internally imposed constraints. These constraints are established by Resolution of the Board of Directors.

*Assigned* – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is SVSS' intended use. These constraints are established by the Board of Directors and/or management.

*Unassigned* – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

SVSS considers the spendable fund balances to have been spent when expenditures are incurred.

When committed, assigned, or unassigned resources are available for use, it is SVSS' policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

**Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The Souris Valley Special Services has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the NDPERS and TFFR pension plans. See Note 8 for more details. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Souris Valley Special Services has one type of item, which arises only under a modified accrual basis of accounting,that qualifies for reporting in this category. The District also has one item reported on the statement of net position *as cost sharing defined benefit pension plan*, which represents the actuarial differences within the NDPERS and TFFR pension plans as well as amounts paid to the plans after the measurement date. See Note 8 for more details.

## NOTE 2 CASH AND CASH EQUIVALENTS

*Custodial Credit Risk – Deposits* – This is the risk that, in the event of the failure of the counterparty, SVSS will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party.

SVSS maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC and NCUA up to $250,000 per applicable financial institution. At June 30, 2017, SVSS' bank balance totaled $1,680,313. Of the bank balance, $250,000 is covered by federal depository insurance, with the remainder being collateralized by pledged securities. State statute requires the market value of collateral pledged to equal 110% of the deposits not covered by federal depository insurance.

### Interest Rate Risk

SVSS does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Concentration of Credit Risk

The investments are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

## NOTE 3 INVESTMENTS

Investments consist of certificates of deposit held at financial institutions. SVSS elects to exclude investments with maturity of one year or less from date or purchase from fair value reporting. These investments are reported at cost. As of June 30, 2017, SVSS had the following investments:

| Description | Reported Amount | | Maturity | Interest Rate |
|---|---|---|---|---|
| Certificate of deposit | $ | 119,078 | 1/17/2018 | 1.05% |
| Certificate of deposit | | 109,316 | 3/28/2018 | 1.05% |
| Total investments: | $ | 228,394 | | |

## NOTE 4 DUE FROM OTHER GOVERNMENTS

SVSS had the following amounts due from other governments included in accounts receivable at June 30, 2017:

| From | For | Amount |
|---|---|---|
| ND Department of Public Instruction | Pass-through grant | $ 340,650 |
| Garrison Public School | Services | 15,000 |
| Total Due From Other Governments | | $ 355,650 |

## NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of the Year |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Equipment | $ 9,825 | $ 15,094 | $ - | $ 24,919 |
| Less Accumulated Depreciation | | | | |
| Equipment | 2,374 | 2,492 | - | 4,866 |
| Net Capital Assets for Governmental Activities | $ 7,451 | $ 12,602 | $ - | $ 20,053 |

Depreciation expense of $2,492 was charged to Administration Services in the statement of activities for the year ended June 30, 2017.

## NOTE 6 ECONOMIC DEPENDENCY

SVSS receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on SVSS' programs and therefore on its continued operations.

## NOTE 7 RISK MANAGEMENT

SVSS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, SVSS was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions.

All members paid an additional charge the first year they joined to help capitalize the NDIRF. During the first five years, the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to SVSS. SVSS pays an annual premium to NDIRF for its general, personal injury, and auto insurance. The coverage by NDIRF is limited to losses of $1,580,000 per occurrence. In the past three years, no settled claims have exceeded insurance coverage.

SVSS continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident insurance.

## NOTE 8 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to these plans follow:

## NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT

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

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

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

### *Pension Benefits*

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

*Tier 1 Grandfathered*

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

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

*Tier 1 Non-grandfathered*

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

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

*Tier 2*

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

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

***Death and Disability Benefits***

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

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

***Member and Employer Contributions***

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

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

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

At June 30, 2017, Souris Valley Special Services reported a liability of $3,365,978 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2016, the Employer's proportion was 0.229750 percent, which was decrease of 0.020768 from its proportion measured as of June, 30 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of $313,774. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 15,897 | $ (15,937) |
| Changes in actuarial assumptions | 281,156 | - |
| Difference between projected and actual investment earnings | 279,804 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | (223,603) |
| Contributions paid to TFFR subsequent to the measurement date | 129,886 | - |
| Total | $ 706,743 | $ (239,540) |

$129,886 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

| **Year ended June 30:** | |
|---|---|
| 2018 | $ 66,041 |
| 2019 | 66,041 |
| 2020 | 134,411 |
| 2021 | 91,604 |
| 2022 | 16,505 |
| Thereafter | (37,285) |

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

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

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

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

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

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global Equities | 58% | 7.3% |
| Global Fixed Income | 23% | 0.88% |
| Global Real Assets | 18% | 5.32% |
| Cash Equivalents | 1% | 0% |

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

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

| | 1% Decrease in Discount Rate (6.75%) | Current Discount Rate (7.75%) | 1% Increase in Discount Rate (8.75%) |
|---|---|---|---|
| School's proportionate share of the TFFR net pension liability: | $ 4,365,926 | $ 3,365,978 | $ 2,533,115 |

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

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For 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 for 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 salaries and wages. 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 24 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, 2017, the Employer reported a liability of $1,137,336 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Employer's proportion was 0.116698 percent, which was a decrease of 0.016764 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of $133,500. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 17,085 | $ (10,531) |
| Changes in actuarial assumptions | 104,848 | (56,503) |
| Difference between projected and actual investment earnings | 158,674 | - |
| Changes in proportion and differenes between employer contributions and proportionate share of contributions | 13,728 | (101,498) |
| Contributions paid to TFFR subsequent to the measurement date | 33,331 | - |
| Total | $ 327,666 | $ (168,532) |

$33,331 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

| Year ended June 30: | Pension Expense Amount |
|---|---|
| 2018 | $ 21,036 |
| 2019 | 21,036 |
| 2020 | 55,650 |
| 2021 | 29,350 |
| 2022 | (1,269) |

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

| | |
|---|---|
| Inflation | 3.50% |
| Salary increases | 4.50% per annum |
| Investment rate of return | 8.00%, net of investment expenses |
| Cost-of-living adjustments | None |

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

The 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, 2016, 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 of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic equity | 31% | 6.90% |
| International equity | 21% | 7.55% |
| Private equity | 5% | 11.30% |
| Domestic fixed income | 17% | 1.52% |
| International fixed income | 5% | 0.45% |
| Global real assets | 20% | 5.38% |
| Cash Equivalents | 1% | 0.00% |

***Discount rate*.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

***Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate*.** The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease in Discount Rate (7%) | Current Discount Rate (8%) | 1% Increase in Discount Rate (9%) |
|---|---|---|---|
| School's proportionate share of the GERF net | $ 1,613,289 | $ 1,137,336 | $ 736,321 |

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

## NOTE 9 CONTINGENCIES

SVSS received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. SVSS' management believes it has complied in all material respects with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of SVSS as of June 30, 2017.

## NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

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

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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

## NOTE 11 SUBSEQUENT EVENTS

No significant events occurred subsequent to SVSS' year end. Subsequent events have been evaluated through October 23, 2017, which is the date these financial statements were available to be issued.

**SOURIS VALLEY SPECIAL SERVICES**
BUDGETARY COMPARISON SCHEDULE OF THE GENERAL FUND
FOR THE YEAR ENDING JUNE 30, 2017

| | Budgeted Amounts- Original and Final | Actual Amounts | Variance Original/Final to Actual Results |
|---|---|---|---|
| **REVENUES** | | | |
| Local sources | $ 501,027 | $ 514,193 | $ 13,166 |
| Federal sources | 1,843,986 | 1,766,045 | (77,941) |
| Other sources | 12,000 | 2,585 | (9,415) |
| Total revenues | 2,357,013 | 2,282,823 | (74,190) |
| **EXPENDITURES** | | | |
| Instruction: | | | |
| Special education | 703,525 | 698,047 | 5,478 |
| Support services | | | |
| Pupil services | 1,103,046 | 1,040,113 | 62,933 |
| Instructional staff services | 231,252 | 228,876 | 2,376 |
| Administration services | 97,806 | 108,968 | (11,162) |
| Business services | 168,633 | 151,126 | 17,507 |
| Operations and maintenance | 59,500 | 58,239 | 1,261 |
| Total support services | 1,660,237 | 1,587,322 | 72,915 |
| Total Expenditures | 2,363,762 | 2,285,369 | 78,393 |
| Excess of revenues over expenditures | (6,749) | (2,546) | 4,203 |
| Fund balances - beginning of year | 1,240,850 | 1,240,850 | - |
| Fund balances - end of year | $ 1,234,101 | $ 1,238,304 | $ 4,203 |

SEE NOTES TO THE BUDGETARY COMPARISON SCHEDULE

## NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

Budgets are prepared for Souris Valley Special Services' funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets present in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the entity.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the entity.

**SOURIS VALLEY SPECIAL SERVICES**
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN FISCAL YEARS

**Teachers Fund for Retirement**

| Fiscal Year Ending June 30 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | SVSS's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2017 | $ 129,886 | $ (129,886) | $ - | $ 1,018,717 | 12.75% |
| 2016 | 190,325 | (190,325) | - | 1,492,745 | 12.75% |
| 2015 | 196,461 | (196,461) | - | 1,540,949 | 12.75% |

**ND PERS**

| Fiscal Year Ending June 30 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | SVSS's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2017 | $ 85,810 | $ (84,364) | $ 1,446 | $ 1,205,197 | 7.12% |
| 2016 | 85,143 | (85,996) | (853) | 1,176,038 | 7.31% |
| 2015 | 84,656 | (86,178) | (1,522) | 1,188,983 | 7.12% |

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

**SOURIS VALLEY SPECIAL SERVICES**
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS

**Teachers Fund for Retirement**

| Fiscal Year Ending June 30 | SVSS's Proportion of the Net Pension Liability (Asset) | SVSS's Proportionate Share of the Net Pension Liability (Asset) (a) | SVSS's Covered-Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll | Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2017 | 0.229750% | $ 3,365,978 | $ 1,492,745 | 225.49% | 59.20% |
| 2016 | 0.250518% | 3,276,413 | 1,540,949 | 212.62% | 62.10% |
| 2015 | 0.254310% | 2,645,029 | 1,460,235 | 180.64% | 66.60% |

**ND PERS**

| Fiscal Year Ending June 30 | SVSS's Proportion of the Net Pension Liability (Asset) | SVSS's Proportionate Share of the Net Pension Liability (Asset) (a) | SVSS's Covered-Employee Payroll | Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll | Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2017 | 0.116698% | $ 1,137,336 | $ 1,176,038 | 96.71% | 70.46% |
| 2016 | 0.133462% | 907,519 | 1,188,983 | 75.15% | 77.15% |
| 2015 | 0.130107% | 825,817 | 1,095,995 | 75.35% | 77.70% |

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

## NOTE 1 CHANGES OF ASSUMPTIONS

### TFFR

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

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

### NDPERS

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

**SOURIS VALLEY SPECIAL SERVICES**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures($) |
|---|---|---|---|
| U.S. Department of Education: | | | |
| Pass through the State Department of Public Instruction: | | | |
| Special Education - State Grants | 84.027 | See Note 3 | $ 1,726,240 |
| Special Education - Preschool Grants | 84.173 | See Note 3 | 39,805 |
| Total Special Education Cluster | | | 1,766,045 |
| TOTAL FEDERAL ASSISTANCE | | | $ 1,766,045 |

SEE NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**SOURIS VALLEY SPECIAL SERVICES**
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

## NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Souris Valley Special Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Souris Valley Special Services, it is not intended to and does not present the financial position, changes in net position or cash flows of Souris Valley Special Services.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Souris Valley Special Services has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE 3 AGENCY OR PASS-THROUGH NUMBER

Souris Valley Special Services received money passed through from a grantor agency. There were no pass-through numbers identified with the grants identified above.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

To the Board of Directors
Souris Valley Special Services
Minot, 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, each major fund, and the fiduciary fund of Souris Valley Special Services as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Souris Valley Special Services' basic financial statements, and have issued our report thereon dated October 23, 2017.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness as item 2017-001.

**Compliance and Other Matters**

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

***Souris Valley Special Services' Response to Finding***

Souris Valley Special Services' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Souris Valley Special Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of This Report***

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

Brady Martz

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

October 23, 2017

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQURIED BY THE UNIFORM GUIDANCE

To the Board of Directors
Souris Valley Special Services
Minot, North Dakota

## Report on Compliance for Each Major Federal Program

We have audited Souris Valley Special Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement,* that could have a direct and material effect on each of Souris Valley Special Services' major federal programs for the year ended June 30, 2017. Souris Valley Special Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs.

### *Management's Responsibility*

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

### *Auditor's Responsibility*

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Souris Valley Special Services' compliance.

***Opinion on Each Major Federal Program***

In our opinion, Souris Valley Special Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

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

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

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

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

Brady Martz

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

October 23, 2017

# SOURIS VALLEY SPECIAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

**Section I - Summary of Auditor's Results**

Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | x | yes | | no |
| Significant deficiency(ies) identified? | | yes | x | none reported |
| Noncompliance material to financial statements noted? | | yes | x | no |

Federal Awards

| | | | | |
|---|---|---|---|---|
| Internal control over major programs: | | | | |
| Material weakness(es) identified? | | yes | x | no |
| Significant deficiency(ies) identified? | | yes | x | none reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | | | |
| Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)? | | yes | x | no |

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.027 & 84.173 | Special Education Cluster |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $750,000 | | | |
| Auditee qualified as a low-risk auditee? | | yes | x | no |

## SECTION II - FINANCIAL STATEMENT FINDINGS

### 2017-001: Adjusting Journal Entries and Financial Statements- Material Weakness

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

Condition
The auditors prepared the draft financial statements and provided assistance in the presentation of the Schedule of Expenditures of Federal Awards as of June 30, 2017. In addition, material adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). An appropriate system of internal controls requires that the School must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires SVSS personnel to maintain a working knowledge of current generally accepted accounting principles in the United States of America and required financial statement disclosures.

Cause
Auditor's prepared draft financial statements, proposed material adjusting entries, and assisted with the preparation of the Schedule of Expenditures of Federal Awards.

Effect
An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with U.S. GAAP prior to the audit.

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior the audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions
Due to the complexity and disclosure requirements of GASB 68, we decided to get the assistance of our auditors for recording and reporting the liability and deferred inflows/outflows.

Indication of Repeat Finding
This is a repeat of finding 2016-001 from the prior year.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings that are required to be communicated under this section

**SOURIS VALLEY SPECIAL SERVICES**
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

**2016-001: Adjusting Journal Entries - Material Weakness**

Criteria
SVSS is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

Condition
During our audit, material adjusting journal entries to the financial statements were proposed in order to bring the financial statements into compliance with accounting principles generally accepted in the United State of America (U.S. GAAP). This was due primarily to the implementation of GASB 68 and the material journal entries that were required. SVSS is required to maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

Cause
SVSS's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a U.S. GAAP basis. Material journal entries were recorded with the implementation of GASB 68.

Effect
An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with U.S. GAAP prior to the audit.

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior the audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions
Due to the complexity and disclosure requirements of GASB 68, we decided to get the assistance of our auditors for recording and reporting the liability and deferred inflows/outflows.

Current Status
Based upon our audit testing, the finding was repeated in the current year as finding 2017-001.

**2016-002: Pledged Collateral – Significant Deficiency**

Criteria
According to North Dakota legal compliance under the North Dakota Century Code, an entity that has deposits in excess of FDIC insurance, must be protected by bonding or collateral at least ten percent more than the amount of the excess deposit.

Condition
During our audit, we noted that there were deposits of $816,099 that were in excess of FDIC insurance and pledged balances.

Cause
SVSS had a bank account balance at June 30, 2016 that was not fully collateralized due to FDIC and pledged securities that did not exceed 110 percent of its balance.

Effect
Not meeting requirements of the North Dakota Century Code.

Recommendation
We recommend bank balances are reviewed on a regular basis to ensure that deposits have the necessary FDIC insurance or collateral to cover 110 percent of the bank balance.

Views of Responsible Officials and Planned Corrective Actions
We will monitor our bank balances to ensure they are adequately collateralized.

Current Status
Based on our testing, this finding was corrected.

**SOURIS VALLEY SPECIAL SERVICES**
CORRECTIVE ACTION PLAN
JUNE 30, 2017

**2017-001**

| | |
|---|---|
| *Correcting Plan:* | SVSS personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the statements. |
| *Explanation of Disagreement:* | There is essentially no disagreement with the finding. |
| *Official Responsible:* | The business manager and director are responsible for carrying out the action plan. |
| *Completion Date:* | Annually |
| *Monitor Plan:* | The director will monitor completion of the corrective action plan, with reports to the board on an annual basis. |