

**SOUTH VALLEY MULTI-DISTRICT
SPECIAL EDUCATION UNIT
Hankinson, North Dakota**

**AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2017**

Nadine Julson, LLC

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

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June 30, 2017

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SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

OFFICIAL DIRECTORY
June 30, 2017

Tom Rettig	President
Steven Johnson	Vice - President
Chad Benson	Board Member
Randall Cale	Board Member
Dan Dalchow	Board Member
Tim Godfrey	Board Member
Doug Jacobson	Board Member
Chris Larson	Board Member
Ron Stahlecker	Board Member
Dan Warcken	Board Member
John Porter	Director
Linda Bladow	Business Manager



INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Valley Multi-District Special Education Unit
Hankinson, North Dakota

We have audited the accompanying financial statements of the governmental activities and the major fund of the South Valley Multi-District Special Education Unit as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the South Valley Multi-District Special Education Unit, Hankinson, North Dakota, as of June 30, 2017, and the respective change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The official directory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a reported dated October 24, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions 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 South Valley Multi-District Special Education Unit's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, North Dakota
October 24, 2017

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

MANAGEMENT DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

The Management's Discussion and Analysis (MD&A) of South Valley Multi-District Special Education Unit's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017, with comparative data for the fiscal year ended June 30, 2016. The intent of the MD&A is to look at the District's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

Financial Highlights

Key financial highlights for fiscal year 2016-2017 are as follows:

For the 2016-17 fiscal year, South Valley Multi-District Special Education's beginning cash balance was \$426,786 and the ending cash balance was \$417,540, a net loss for the year in the amount of \$9,246. Anticipated state student contract reimbursements of approximately \$59,746 were not yet received at the close of the fiscal year, which would have resulted in a net gain for the year.

Revenues were budgeted at \$1,743,804. Actual revenues for the year were \$1,936,333 an increase of \$192,529. Increases were reflected in the amount of revenue received for Medicaid, IDEA, Preschool Foundation Aid, Tuitions and Transportation. Total expenditures were also budgeted at \$1,743,804. Actual expenditures for the year were \$1,870,833, a difference of \$127,029. The areas with increased expenses were Tuitions, OT/PT, Transportation, Staff Credits, and Lisbon Preschool Rent increase due to additional programming.

The District is budgeting for these increased expenses and revenues in the upcoming 2017-18 fiscal year, with a balanced budget at \$1,745,885.

Using this Annual Report

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

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

Reporting on the District as a Whole

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the South Valley Multi-District Special Education Unit to provide programs and activities and attempt to answer the question "How did the District do financially during the year ended June 30, 2017?"

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

The Statement of Activities presents information on how the District's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Management Discussion and Analysis - Continued

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

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, special instruction, federal programs, psychological services, student and staff support services and administration.

The government-wide financial statements can be found on pages 10-11 of this report.

Reporting on the District's Most Significant Funds

Balance Sheet - Governmental Funds

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

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-26 of this report.

Financial Analysis of the District as a Whole

Table I provides a summary of the District's net position as of June 30, 2017 and 2016. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the South Valley Multi-District Special Education Unit, net position increased by \$92,682 for the year ending June 30, 2017.

The District's net position at June 30, 2017 is segregated into two separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. The remaining unrestricted net positions are available to meet the District's ongoing obligations.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Management Discussion and Analysis - Continued

Table I
Net Position
June 30,

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets	\$ 492,286	\$ 426,786
Capital Assets (net of depreciation)	62,515	62,775
Deferred Outflows of Resources	<u>262,651</u>	<u>286,147</u>
Total Assets and Deferred Outflows of Resources	817,452	775,708
Liabilities and Deferred Inflows of Resources		
Long-term Liabilities	999,890	1,508,717
Deferred Inflows of Resources	<u>474,650</u>	<u>16,761</u>
Total Liabilities and Deferred Inflows of Resources	1,474,540	1,525,478
Net Position (Deficit)		
Net Investment in Capital Assets	62,515	62,775
Unrestricted (Deficit)	<u>(719,603)</u>	<u>(812,545)</u>
Total Net Position (Deficit)	<u>\$ (657,088)</u>	<u>\$ (749,770)</u>

Table II shows the changes in net position for the fiscal years ended June 30, 2017 and 2016.

Table II
Changes in Net Position
For the Years Ended June 30,

	2017	2016
Revenues		
Program Revenues		
Charges for Services	\$ 1,015,670	\$ 751,539
Operating Grants and Contributions	828,453	729,699
General Revenues		
State Aid - Unrestricted	84,739	118,837
Interest and Miscellaneous Earnings	3,095	9,886
Gain on Sale	<u>2,976</u>	<u>150</u>
Total Revenues	<u>\$ 1,934,933</u>	<u>\$ 1,610,111</u>

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Management Discussion and Analysis - Continued

	<u>2017</u>	<u>2016</u>
Expenses		
Special Instruction	\$ 485,366	\$ 578,886
Psychological Services	155,229	157,050
Other Student Support	72,843	86,399
Governing Board	50,289	32,469
General Administration Services	330,750	320,595
Student Transportation	136,231	74,935
Staff Support Services	-	1,173
Other Supporting Services	86,118	93,727
Contracted Services	<u>525,425</u>	<u>381,042</u>
Total Expenses	<u>1,842,251</u>	<u>1,726,276</u>
Change in Net Position	<u>\$ 92,682</u>	<u>\$ (116,165)</u>

Charges for services constituted 52.5%, operating grants 42.8%, and 8.4% and unrestricted state aid 4.4% of the total revenues of governmental activities of the District for the fiscal year June 30, 2017.

Contracted services constituted 28.5%, special instruction 26.3%, general administration 18.0%, psychological services 8.4%, and student transportation 7.4% of total expenditures for governmental activities during the fiscal year June 30, 2017.

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

Table III
Total and Net Cost of Services
For the Years Ended June 30,

	<u>Total Cost</u>		<u>Net Cost</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Special Instruction	\$ 485,366	\$ 578,886	\$ (1,274,519)	\$ (824,991)
Psychological Services	155,229	157,050	155,229	157,050
Other Student Support	72,843	86,399	72,843	86,399
Governing Board	50,289	32,469	50,289	32,469
General Administration Services	330,750	320,595	330,750	320,595
Student Transportation	136,231	74,935	51,993	(2,426)
Staff Support Services	-	1,173	-	1,173
Other Supporting Services	86,118	93,727	86,118	93,727
Contracted Services	<u>525,425</u>	<u>381,042</u>	<u>525,425</u>	<u>381,042</u>
Total Expenses	<u>\$ 1,842,251</u>	<u>\$ 1,726,276</u>	<u>\$ (1,872)</u>	<u>\$ 245,038</u>

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Management Discussion and Analysis - Continued

Financial Analysis of the Government's Funds

The purpose of the District's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unreserved fund balance generally can be used as a measure of the District's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

The District's governmental funds had total revenue of \$1,936,333 and expenditures of \$1,870,833 for the year ended June 30, 2017. The unassigned fund balance of the District's general fund was \$492,286.

General Fund Budgetary Highlights

During the year, revenues were more than budgetary estimates by \$192,529, expenditures were more than budgetary estimates by \$127,029, and ending fund balance was more than budgetary estimates by \$65,500. Grants received were higher than budgeted amounts and the varied weighting factor for different district's pupil reimbursement led to revenue in excess of budgeted amounts. Professionals contracted for additional services and staff credits were higher than budgeted amounts.

Additional information on the South Valley Multi-District Special Education Unit budget can be found in Note 2 of the audited financial statements that follow this analysis.

Capital Assets

As of June 30, 2017, the South Valley Multi-District Special Education Unit had \$62,515 invested in capital assets. Table IV shows the balances at June 30, 2017 and 2016.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
June 30,

	2017	2016
Vehicles	\$ 62,515	\$ 62,775
Equipment	-	-
Total Capital Assets (net of accumulated depreciation)	<u>\$ 62,515</u>	<u>\$ 62,775</u>

This total represents a net decrease of \$260 in capital assets from the prior fiscal year. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 of the audited financial statements that follow this analysis.

Debt Administration

As of June 30, 2017, the South Valley Multi-District Special Education Unit had no long-term debt.

For the Future

The fiscal year included a significant increase in preschool student enrollment, which required the addition of a preschool position in the Gwinner/Lisbon area. The additional revenue received from the districts through state aid assisted in balancing the additional costs for the preschool programs. There was also a high-cost student who was placed at a residential facility that the District was unaware was a resident of our district.

The Department of Public Instruction did not fully reimburse all of the excess cost requests for the 2016-2017 school year. If DPI continues to be short on funds and not able to reimburse fully the excess costs, we may have to make some budget adjustments in the future.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Management Discussion and Analysis - Continued

The South Valley and Rural Cass Boards continued to meet jointly during the 2016-17 fiscal year. The two boards decided that a consolidated unit is not in the immediate future. The boards will continue to meet jointly 2 times per year to evaluate the shared director position and explore options for continued sharing of programs.

Contacting the Districts Financial Management

This financial report is designed to provide our parents, taxpayers and creditors with a general overview of the South Valley Multi-District Special Education Unit's finances and to show the District's accountability for the money it receives to provide the best possible education to all students enrolled in South Valley Multi-District Special Education Unit. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact John Porter at 102 6th Street SE Hankinson, North Dakota, 58041, 701-242-7031.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

STATEMENT OF NET POSITION
June 30, 2017

ASSETS	
Current Assets	
Cash and Investments	\$ 417,540
Accounts Receivable	59,746
Due from Federal Government	<u>15,000</u>
Total Current Assets	492,286
Capital Assets	
Depreciable, net of accumulated depreciation	
Vehicles	62,515
Equipment	<u>-</u>
Total Capital Assets	<u>62,515</u>
Total Assets	554,801
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension	<u>262,651</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 817,452</u>
LIABILITIES	
Due After One Year:	
Compensated Absences	\$ 21,198
Net Pension Liability	<u>978,692</u>
Total Liabilities	999,890
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension	<u>474,650</u>
Total Liabilities and Deferred Inflows of Resources	1,474,540
NET POSITION (DEFICIT)	
Net Investment in Capital Assets	62,515
Unrestricted (Deficit)	<u>(719,603)</u>
Total Net Position (Deficit)	<u>\$ (657,088)</u>

See Notes to Financial Statements

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Special Instruction	\$ 485,366	\$ 1,015,670	\$ 744,215	\$ 1,274,519
Psychological Services	155,229	-	-	(155,229)
Other Student Support Services	72,843	-	-	(72,843)
Governing Board	50,289	-	-	(50,289)
General Administration Services	330,750	-	-	(330,750)
Student Transportation	136,231	-	84,238	(51,993)
Other Supporting Services	86,118	-	-	(86,118)
Contracted Services	<u>525,425</u>	<u>-</u>	<u>-</u>	<u>(525,425)</u>
Total Governmental Activities	<u>\$ 1,842,251</u>	<u>\$ 1,015,670</u>	<u>\$ 828,453</u>	<u>1,872</u>
General Revenues:				
State Aid, not restricted to specific purpose				84,739
Interest and Investment Earnings				154
Gain on Sale of Assets				2,976
Miscellaneous				<u>2,941</u>
Total General Revenues				<u>90,810</u>
Change in Net Position				92,682
Net Position (Deficit), Beginning of Year				<u>(749,770)</u>
Net Position (Deficit), End of Year				<u>\$ (657,088)</u>

See Notes to Financial Statements

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	<u>Major Fund</u>
	<u>General Fund</u>
ASSETS	
Cash and Investments	\$ 417,540
Accounts Receivable	59,746
Due from Federal Government	<u>15,000</u>
Total Assets	<u>\$ 492,286</u>
FUND BALANCE	
Unassigned	<u>\$ 492,286</u>

See Notes to Financial Statements

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total Fund Balance - Governmental Funds \$ 492,286

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

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	216,729	
Less Accumulated Depreciation	<u>(154,214)</u>	
Net Capital Assets		62,515

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.

Compensated Absences	(21,198)	
Pension Liability (net of related deferred outflows and inflows)	<u>(1,190,691)</u>	
Total Long-term Liabilities		<u>(1,211,889)</u>

Net Position (Deficit) of Governmental Activities		<u>\$ (657,088)</u>
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SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	<u>Major Fund</u>
	<u>General Fund</u>
REVENUES	
Local Sources	\$ 1,015,670
State Sources	219,297
Federal Sources	693,895
Interest Income	154
Miscellaneous	<u>7,317</u>
Total Revenues	1,936,333
EXPENDITURES	
Current	
Special Instruction	512,808
Psychological Services	155,229
Other Student Support	99,743
Governing Board	50,289
General Administration Services	329,085
Student Transportation	112,136
Other Supporting Services	86,118
Contracted Services	<u>525,425</u>
Total Expenditures	<u>1,870,833</u>
Excess of Revenues over Expenditures	65,500
FUND BALANCE, BEGINNING OF YEAR	<u>426,786</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 492,286</u></u>

See Notes to Financial Statements

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net Change in Fund Balance - Total Governmental Funds \$ 65,500

The change in net position reported for governmental activities in the statement of activities is different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	(598)	
Net Decrease in Pension Liability	<u>28,040</u>	
		27,442

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays and asset disposals in the current year.

(260)

Changes in Net Position of Governmental Activities		<u>\$ 92,682</u>
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SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South Valley Multi-District Special Education Unit Hankinson, North Dakota (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying financial statements present the activities of the South Valley Multi-District Special Education Unit. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause the District's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the South Valley Multi-District Special Education Unit to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on South Valley Multi-District Special Education Unit.

Based on these criteria, there are no component units to be included within the South Valley Multi-District Special Education Unit as a reporting entity.

B. Basis of Presentation, Basis of Accounting

Government-wide statements - The statement of net position and the statement of activities display information about the primary government (South Valley Multi-District Special Education Unit). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed intergovernmental revenues, fees and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements - The fund financial statements provide reports on the financial condition and results of operations for governmental activities. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

The District reports the following major governmental fund:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

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

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

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

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

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consist of certificates of deposit with a maturity of three months or more. Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the uninsured balance.

E. Capital Assets

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

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

<u>Assets</u>	<u>Years</u>
Vehicle	5
Office Equipment	5

F. Vacation Pay, Sick Pay, Severance

The expenditures for vacation pay are recognized when payment is made.

Paid sick leave of 12 days per year of service shall be given each certified or 12-month employee accumulative to 110 days. Payment of \$20 per day will be made for days accumulated in excess of 110 days prior to the present year. The payment will be included with the September payroll of the new contract year and will not exceed 12 days. Non-licensed staff receive paid sick leave equivalent to one work week per year of service, accumulative to three weeks.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

Upon termination of employment the following actions will take place:

- Staff who have a minimum of 5 years of service in the unit (employment in other districts is not considered) will receive \$25 per unused sick day upon retirement up to 110 days.
- Staff who have less than 15 years of service in the unit (employment in other districts is not considered) will receive \$10 per unused sick day upon retirement up to 110 days.
- Staff who change employment from the unit to employment with a unit member school will receive \$10 per unused sick day up to 110 days.
- Staff who leave the unit for employment with a non-unit member or other organization will receive no compensation for unused sick days.
- Payment will be made by the September payroll.

After 5 days of personal leave have accumulated for licensed staff, the 2 unused personal days per year shall be reimbursed at \$75 per day or 2 days can be rolled into sick leave. Any unused personal leave upon termination of employment is paid at the employee's regular rate of pay.

G. Pension Plans

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

H. Fund Balance and Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restriction or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the South Valley Multi-District Special Education Unit to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Budget Stabilization Policy:

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit; or
- The District will increase revenues or pursue funding sources; or
- Some combination of the two operations above

GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purpose for which resources can be used:

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Unassigned Fund Balance

Consists of the amount reported in the General Fund at year-end.

Net Position

South Valley Multi-District Special Education Unit implemented the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

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

Net Investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Unrestricted net position is primarily unrestricted amounts related to the general fund and any negative fund balances. The unrestricted net position is available to meet the District's ongoing obligations.

NOTE 2 - LEGAL COMPLIANCE - BUDGETS

Expenditures over Appropriations – General fund expenditures exceeded appropriations for the year ended June 30, 2017. The District required the use of outside professionals for a new student that moved into the District. The District also added additional occupational therapist services, transportation route, and incurred additional continuing education for staff.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board. At year end June 30, 2017, the District's carrying amounts of deposits was \$417,540 and the bank balances were \$642,323. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk:

The District may invest idle funds as authorized in North Dakota Statutes, as follows:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- d) Obligations of the state.

As of June 30, 2017, the District held no certificates of deposit.

Interest Rate Risk:

The District does not have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk:

The District does not have a limit on the amount it may invest in any one issuer.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts for accrued interest and amounts on open account from school districts and organizations for goods and services furnished by the Special Education Unit. No allowance has been established for uncollectible accounts.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Notes to Financial Statements - Continued

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2017:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities:				
Capital Assets, being depreciated:				
Vehicles	\$ 172,579	\$ 26,900	\$ (24,325)	\$ 175,154
Equipment	<u>41,575</u>	<u>-</u>	<u>-</u>	<u>41,575</u>
Total Capital Assets, being depreciated	214,154	26,900	(24,325)	216,729
Less Accumulated Depreciation for:				
Vehicles	109,804	25,760	(22,925)	112,639
Equipment	<u>41,575</u>	<u>-</u>	<u>-</u>	<u>41,575</u>
Total Accumulated Depreciation	151,379	25,760	(22,925)	154,214
Governmental Activities Capital Assets, Net	<u>\$ 62,775</u>	<u>\$ 1,140</u>	<u>\$ (1,400)</u>	<u>\$ 62,515</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
General Administration Services	\$ 1,665
Student Transportation	<u>24,095</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 25,760</u>

NOTE 6 - LONG-TERM LIABILITIES

During the year ended June 30, 2017, the following changes occurred in liabilities reported in long-term liabilities:

<u>Governmental Activities:</u>	<u>Long-term</u> <u>Debt Payable at</u> <u>July 1, 2016</u>	<u>Net Change*</u>	<u>Long-term</u> <u>Debt Payable at</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences*	\$ 20,600	\$ 598	\$ 21,198	\$ -

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

NOTE 7 - DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the fund financial statements consist of amounts for which asset recognition criteria have been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred inflows of resources on the statement of net position consist of related pension expense of \$474,650.

NOTE 8 - DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the fund financial statements consist of amounts for which liability recognition criteria have been met, but for which expense recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred outflows of resources on the statement of net position consist of related pension expense of \$262,651.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

NOTE 9 - RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDIRF for its general liability, auto and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and auto coverage and \$119,788 for public assets coverage.

The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$650,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The District participates in the North Dakota Workforce Safety & Insurance and purchases commercial insurance for employee health and boiler and machinery insurance. Settled claims resulting from these above risks have not exceeded insurance coverage in any of the past three fiscal years.

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District has reserved equity in the North Dakota UC Group Account fund in the amount of \$8,978 for the payment of future unemployment benefits. During the year ended June 30, 2017 no claims were filed and they do not anticipate claims in the next fiscal year.

NOTE 10 - PENSION PLANS

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.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

Tier 1 Grandfathered

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

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

Tier 1 Non-Grandfathered

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

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

Tier 2

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

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.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

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 government 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. Re-funded 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, the District reported a liability of \$978,692 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 calculation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employees. At June 30, 2016 the District's proportion was .066802 percent which was a decrease of .046981 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expenses of \$21,891. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,622	\$ 4,634
Changes in assumptions	81,749	-
Net difference between projected and actual investment earnings	81,356	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	44,972	470,016
Employer contributions subsequent to the measurement date	49,952	-
Totals	<u>\$ 262,651</u>	<u>\$ 474,650</u>

\$49,952 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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	(39,151)
2019	(39,151)
2020	(19,271)
2021	(31,718)
2022	(53,552)
Thereafter	(79,108)

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

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 measurement:

Inflation	2.75%
Salary increases	4.75% 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 8.00% to 7.75%.
- . Inflation assumption lowered from 3.00% to 2.75%.
- . Total salary scales 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%	7.30%
Global Fixed Income	23%	0.88%
Global Real Assets	18%	5.32%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 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.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT

Notes to Financial Statements - Continued

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 1,269,437	\$ 978,692	\$ 736,529

Pension plan fiduciary net position

Detailed information is located in the North Dakota Retirement and Investments Office’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. Additional financial and actuarial information is available on their website, www.nd.gov/rio, or may be obtained by writing to RIO at ND Retirement and Investment Office, 1930 Burnt Boat Drive, PO Box 7100, Bismarck, North Dakota, 58507-7100 or by calling (701) 328-9885.

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued NDPERS financial report. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial report for the fiscal year ended June 30, 2016. The supporting actuarial information is included in the June 30, 2016, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, www.nd.gov/ndpers, or may be obtained by contacting the agency at North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657 or by calling (701) 328-3900.

NOTE 11 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 24, 2017, the date on which the financial statements were available to be issued.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 895,833	\$ 895,833	\$ 1,015,670	\$ 119,837
State Sources	208,500	208,500	219,297	10,797
Federal Sources	634,071	634,071	693,895	59,824
Interest Income	400	400	154	(246)
Miscellaneous	5,000	5,000	7,317	2,317
Total Revenues	1,743,804	1,743,804	1,936,333	192,529
EXPENDITURES				
Current				
Special Instruction	576,259	576,259	512,808	63,451
Psychological Services	155,947	155,947	155,229	718
Other Student Support	101,800	101,800	99,743	2,057
Governing Board	33,800	33,800	50,289	(16,489)
General Administration Services	333,869	333,869	329,085	4,784
Student Transportation	109,607	109,607	112,136	(2,529)
Other Supporting Services	97,622	97,622	86,118	11,504
Contracted Services	334,900	334,900	525,425	(190,525)
Total Expenditures	1,743,804	1,743,804	1,870,833	(127,029)
Excess of Revenues over Expenditures	-	-	65,500	65,500
FUND BALANCE, BEGINNING OF YEAR			426,786	
FUND BALANCE, END OF YEAR			<u>\$ 492,286</u>	

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

PENSION SCHEDULES
For the Year Ended June 30, 2017

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

	2017	2016	2015
District's proportion of the net pension liability (asset)	0.066802%	0.113783%	0.108350%
District's proportionate share of the net pension liability (asset)	978,692	1,488,117	1,135,316
District's covered-employee payroll	434,031	699,887	628,490
District proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	225.49%	212.62%	180.64%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.10%	66.60%

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

	2017	2016	2015
Statutorily required contribution	55,339	89,231	67,562
Contributions in relation to statutorily required contribution	(55,339)	(89,231)	(67,562)
Contribution deficiency (excess)	-	-	-
Employer's covered-employee payroll	434,031	699,887	628,490
Contributions as a percentage of covered-employee payroll	12.75%	12.75%	10.75%

*Complete data for these schedules is not available prior to 2015.

**The measurement date of the net pension liability is June 30th of the prior year.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the general fund.

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

- The budget is prepared annually by the director.
- The Board reviews the budget, may make revisions and approves it on or before July 15. The budget must be filed with the federal government by August 15.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Business Manager at the revenue and expenditure function/object level.
- The current budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end

NOTE 2 - NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT CHANGES OF ASSUMPTIONS

Investment amounts reported in June 30, 2017 reflect the following actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% to 2.75%.
- Total salary scale rates lowered by .25% due to inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.



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

Board of Directors
South Valley Multi-District Special Education Unit
Hankinson, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of South Valley Multi-District Special Education Unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the South Valley Multi-District Special Education Unit's basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2017-001).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency (2017-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Valley Multi-District Special Education Unit's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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.

District's Response to Findings

South Valley Multi-District Special Education Unit's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. South Valley Multi-District Special Education Unit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, North Dakota
October 24, 2017

**SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Report Issued: Unmodified

Internal Control Over Financial Reporting

Material weakness identified?	X	Yes		No
Significant deficiencies identified not considered to be material weaknesses?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 MATERIAL JOURNAL ENTRIES

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect

Inadequate controls over financial reporting of the District results in more than a remote likelihood that the District would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

There is no disagreement with the audit finding.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Schedule of Findings and Questioned Costs - Continued

2017-002 LACK OF SEGREGATION OF DUTIES

Criteria

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the District.

Condition

As part of obtaining reasonable assurance about whether South Valley Multi-District Special Education Unit's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the District's financial condition whether due to error or fraud.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding.

SOUTH VALLEY MULTI-DISTRICT SPECIAL EDUCATION UNIT
Hankinson, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

Prior Financial Statement Findings:

2016-01

A significant deficiency was reported for a lack of segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This significant deficiency continues to exist under the current audit findings as finding number 2017-002.