UPPER VALLEY SPECIAL EDUCATION DISTRICT
GRAFTON, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

UPPER VALLEY SPECIAL EDUCATION DISTRICT
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
AT JUNE 30, 2017

Roger Abbe	President
Jeff Manley	Vice President
Michael O’Brien	Board Member
Linda Lutovsky	Board Member
Darren Albrecht	Board Member
Kirk Ham	Board Member
Jack Maus	Board Member
Renae Grinde	Business Manager
Dan Juve	Director

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

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

January 12, 2018

The discussion and analysis of Upper Valley Special Education District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position of the District decreased $225,870 as a result of the current year's operations.
- Total revenues from all sources were $5,937,522.
- Total expenses were $6,163,392.
- Overall, the general fund balance decreased by $28,767 for the year ended June 30, 2017, compared to a decrease of $60,720 in the previous year.

Using this Annual Report

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2017?" The statement of net position and the statement of activities answers this question. These statements include all assets, deferred inflows of resources, deferred outflows of resources, and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Financial Analysis of the District as a Whole

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

Table 1 provides a summary of the District's net position as of June 30, 2017 and 2016.

As indicated in the financial highlights, the District's net position decreased by $225,870 as a result of current year operations. Net position may serve over time as a useful indicator of the District's financial position.

The District's net position of $(3,082,608) is segregated into two separate categories. Net investment in capital assets represents 0.92% of the District's entire net position. It should be noted that these assets are not available for future spending. The remaining unrestricted net position represents a negative 100.92% of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations.

Table 1
Net Position

ASSETS	2017	2016
Current Assets	$ 1,389,566	$ 1,819,662
Capital Assets (Net of Accumulated Depreciation)	28,345	34,361
TOTAL ASSETS	1,417,911	1,854,023
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,371,974	1,026,003
LIABILITIES		
Current Liabilities	332,266	733,595
Long-Term Liabilities	5,459,235	4,947,539
TOTAL LIABILITIES	5,791,501	5,681,134
TOTAL DEFERRED INFLOWS OF RESOURCES	80,992	55,630
NET POSITION		
Net Investment in Capital Assets	28,345	34,361
Unrestricted	(3,110,953)	(2,891,099)
TOTAL NET POSITION	$ (3,082,608)	$ (2,856,738)

Table 2 shows the changes in net position for fiscal years ended June 30, 2017 and 2016.

Table 2
Changes in Net Position

	2017	2016
REVENUES		
Program Revenues:		
Charges for Services	$ 2,382,104	$ 2,237,684
Operating Grants and Contributions	3,511,003	3,170,752
General Revenues:		
Investment Income	481	354
Other Revenues	43,934	91,144
TOTAL REVENUES	5,937,522	5,499,934
EXPENSES		
Instruction	5,755,221	5,255,692
Support Services:		
General Administration Services	408,171	337,415
TOTAL EXPENSES	6,163,392	5,593,107
INCREASE (DECREASE) IN NET POSITION	(225,870)	(93,173)
NET POSITION - BEGINNING OF YEAR	(2,856,738)	(2,763,565)
NET POSITION - END OF YEAR	$ (3,082,608)	$ (2,856,738)

Operating grants and contributions constituted 59%, and charges for services made up 40% of the total revenues of governmental activities of the District for fiscal year 2017.

Instruction comprises 93% of District expenses.

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

Table 3
Cost of Services

	Total Cost for Year Ended 6/30/2017	Net Cost for Year Ended 6/30/2017	Total Cost for Year Ended 6/30/2016	Net Cost for Year Ended 6/30/2016
Instruction	$ 5,755,221	$ 137,886	$ 5,255,692	$ 152,744
Support Services:				
General Administration Services	408,171	(408,171)	337,415	(337,415)
Total Expenses	$ 6,163,392	$ (270,285)	$ 5,593,107	$ (184,671)

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

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

General Fund Budgeting Highlights

During the course of the 2017 fiscal year, the District believes the variances between budgeted and actual are small. This indicates that the users of the District's budget and financial statements were well informed.

Capital Assets

As of June 30, 2017, the District had $28,345 invested in capital assets. See Note 6 for additional information. Table 4 shows balances as of June 30, 2017 and 2016.

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

	2017	2016
Instructional	$ 8,605	$ 8,377
General Administrative Services	19,740	25,984
	$ 28,345	$ 34,361

Debt Administration

As of June 30, 2017, the District has $5,459,235 in long-tern liabilities, with none due within one year. See Note 7 for details. See below for a description of the District's long-term liabilities:

	Balance 07/01/16	Additions	Retirement	Balance 06/30/17	Amount Due in One Year
Net Pension Liability	$ 4,933,321	$ 1,247,130	$ 734,996	$ 5,445,455	$ -
Compensated Absences	14,218	-	438	13,780	-
	$ 4,947,539	$ 1,247,130	$ 735,434	$ 5,459,235	$ -

For the Future

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

Contacting the District's Financial Management

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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

ASSETS	
Current Assets:	
Accounts Receivable	$ 1,389,566
Total Current Assets	1,389,566
Non-current Assets:	
Capital Assets	158,146
Less Accumulated Depreciation	(129,801)
Total Non-current Assets	28,345
TOTAL ASSETS	1,417,911
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	1,371,974
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,371,974
LIABILITIES	
Current Liabilities:	
Accounts Payable	41,174
Checks Written in Excess of Bank Balance	52,554
Accrued Payroll Liabilities	74,138
Salaries Payable	164,400
Total Current Liabilities	332,266
Long-Term Liabilities:	
Compensated Absences	13,780
Net Pension Liability	5,445,455
Total Non-Current Liabilities	5,459,235
TOTAL LIABILITIES	5,791,501
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	80,992
TOTAL DEFERRED INFLOWS OF RESOURCES	80,992
NET POSITION	
Net Investment in Capital Assets	28,345
Unrestricted	(3,110,953)
TOTAL NET POSITION	$ (3,082,608)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants Contributions**	**Capital Grants Contributions**	**Governmental Activities**
Governmental Activities:					
Instruction:					
Special Education	$ 5,755,221	$ 2,382,104	$ 3,511,003	$ -	$ 137,886
Total Instruction	5,755,221	2,382,104	3,511,003	-	137,886
Support Services:					
General Administration Services	408,171	-	-	-	(408,171)
Total Support Services	408,171	-	-	-	(408,171)
Total Governmental Activities	$ 6,163,392	$ 2,382,104	$ 3,511,003	$ -	(270,285)
General Revenues:					
Investment Income					481
Other Revenues					43,934
Total General Revenues					44,415
Change in Net Position					(225,870)
Net Position - Beginning					(2,856,738)
Net Position - End of Year					$ (3,082,608)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

		General Fund
ASSETS		
Accounts Receivable	$	1,389,566
TOTAL ASSETS	$	1,389,566
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$	41,174
Checks Written in Excess of Bank Balance		52,554
Accrued Payroll Liabilities		74,138
Salaries Payable		164,400
TOTAL LIABILITIES		332,266
FUND BALANCE		
Unassigned, Reported in:		
General Fund		1,057,300
TOTAL FUND BALANCE		1,057,300
TOTAL LIABILITIES AND FUND BALANCES	$	1,389,566

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

Total Fund Balance - Governmental Funds		$ 1,057,300
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.		
Cost	$ 158,146	
Accumulated Depreciation	(129,801)	
Net		28,345
Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plan in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows/(inflows) of resources in the governmental funds.		1,290,982
Long-term liabilities, including special assessments, are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds.		
Net Pension Liability		(5,445,455)
Compensated Absences		(13,780)
Total Net Position- Governmental Activities		$ (3,082,608)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
REVENUES	
Local	$ 2,426,519
State	2,652,603
Federal	858,400
TOTAL REVENUE	5,937,522
EXPENDITURES	
CURRENT:	
Salaries	3,121,343
Employee Benefits	773,635
Purchased Services	2,014,398
Supplies	39,794
Other Objects	11,388
CAPITAL OUTLAY:	
Equipment	5,731
TOTAL EXPENDITURES	5,966,289
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,767)
FUND BALANCE - BEGINNING OF YEAR	1,086,067
FUND BALANCE - END OF YEAR	$ 1,057,300

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Total Net Change in Fund Balances - Government Funds		$ (28,767)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	$ 2,967	
Depreciation Expense	(8,983)	
		(6,016)
Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. This consisted of the (increase)/decrease in:		
Compensated Absences	438	438
Changes in deferred outflows and inflows of resources related to net pension liability:		320,609
Changes in Net Pension Liability		(512,134)
Change in Net Position - Governmental Activities		$ (225,870)

See Notes to the Basic Financial Statements

NOTE 1 DESCRIPTION OF THE DISTRICT REPORTING ENTITY

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below:

Basis of Presentation

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

Government-wide Financial Statements:

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

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

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements:

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements.

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

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

General Fund:

This fund is the general operating fund of the District. It accounts for all financial resources except those requiring to be accounted for in another fund.

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

Basis of Accounting:

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

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

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

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

Revenues- Exchange and Non-Exchange Transactions:

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

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

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

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

Expenses and Expenditures:

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

Cash and Cash Equivalents:

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

Investments:

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

Capital Assets:

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

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

Instructional	5-7 Years
Office	7 Years

Compensated Absences:

Employees who have been employed by the District for a minimum of 10 years are eligible for sick leave pay for a maximum of 90 days at $15 per day with a maximum payout of $1,350. As of June 30, 2017, there are 15 employees eligible for sick leave pay. A corresponding liability, which includes applicable payroll taxes, has been set up as a long-term liability.

Accrued Liabilities and Long-term Obligations:

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

Pensions:

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

Fund Balance Classifications:

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

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

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

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

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

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

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

Net Position:

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

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

Deferred Outflows/Inflows of Resources:

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

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

Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

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

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

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

At June 30, 2017, the carrying amount of the District's deposits was $(52,554) and the bank balance was $838,745. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements. The entire deficit balance was immediately recovered from receivables collected in July.

Custodial Credit Risk – Investments

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

b. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.

c. Securities sold under agreements to repurchase, written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.

d. Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.

e. Obligations of the state.

NOTE 4 ACCOUNTS RECEIVABLE

The District's accounts receivable as of June 30, 2017 are as follows:

State of North Dakota	$	673,331
Other Districts		377,308
Student Tuition		338,927
Total	$	1,389,566

NOTE 5 RELATED PARTY TRANSACTIONS

The District was organized to enlarge and enrich the learning opportunities in special education and related areas of education for eligible residents of the District's member Districts. The following amounts were received from and paid to member Districts for the year ended June 30, 2017:

Received from Member Districts	$ 2,261,299
Paid to Member Districts	281,881

NOTE 6 CHANGES IN CAPITAL ASSETS

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

	Balance 7/1/2016	Additions	Disposals	Balance 6/30/2017
Governmental Activities				
Instructional	$ 108,414	$ 2,967	$ -	$ 111,381
Office	46,765	-	-	46,765
Total	155,179	2,967	-	158,146
Less Accumulated Depreciation				
Instructional	100,038	2,738	-	102,776
Office	20,780	6,245	-	27,025
Total	120,818	8,983	-	129,801
Net Capital Assets for Governmental Activities	$ 34,361	$ (6,016)	$ -	$ 28,345

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 2,738
General Administration Services	6,245
Total	$ 8,983

Capital Outlay was charged to governmental functions as follows:

Instruction	$ 2,967
Total	$ 2,967

NOTE 7 LONG-TERM DEBT

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

	Balance 07/01/16	Additions	Retirement	Balance 06/30/17	Amount Due in One Year
Net Pension Liability	$4,933,321	$ 1,247,130	$ 734,996	$ 5,445,455	$ -
Compensated Absences	14,218	-	438	13,780	-
	$4,947,539	$ 1,247,130	$ 735,434	$ 5,459,235	$ -

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

NOTE 8 OPERATING LEASES

The District leases office and class room space on a year-to-year basis as needed. During the year ended June 30, 2017, $7,112 was charged to expense. The District also leases a copy machine. Total expense for the year ended June 30, 2017 was $3,207.

NOTE 9 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to the plan follow:

North Dakota Teacher's Fund For Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits 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.

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 Costs

At June 30, 2017, the District reported a liability of $5,445,455 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 0.371689 percent which was a decrease of 0.005518 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of $520,395. 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 economic experience	$ 25,719	$ 25,783
Changes in actuarial assumptions	454,853	-
Difference between projected and actual investment earnings	452,665	-
Changes in proportion	109,867	55,209
Contributions paid to TFFR subsequent to the measurement date	328,870	-
Total	$ 1,371,974	$ 80,992

$328,870 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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

Year ending June 30:	Pension Expense Amount
2018	$ 180,756
2019	180,756
2020	291,365
2021	222,112
2022	100,620
Thereafter	(13,497)

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, 2015, 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	58.00%	7.30%
Global Fixed Income	23.00%	0.88%
Global Real Assets	18.00%	5.32%
Cash Equivalents	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June 30, 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. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.75%	7.75%	8.75%
School's proportionate share of the TFFR net pension liability:	$ 7,063,165	$ 5,445,455	$ 4,098,056

Pension Plan Fiduciary Net Position

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

NOTE 10 RISK MANAGEMENT

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

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

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

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

NOTE 11 CONTINGENT LIABILITIES

A. Disallowed Grant Activity

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 12 NEW 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. 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 the effect these statements will have on the District's financial statements.

NOTE 13 FUND BALANCE

The Board of Education has formally adopted a fund balance policy for the General Fund. The policy establishes a year-end target fund balance amount for cash-flow timing needs (working capital) and contingencies of not less than 10 percent and not more than 25 percent of the current annual operating expenditure budget, with an optimal balance of 15 percent. As of June 30, 2017, the fund balance of the general fund was approximately 18% of the current year's operating expenditures.

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through January 12, 2018, which is the date these financial statements were available to be issued.

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

Teachers Fund for Retirement

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

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

See Notes to the Required Supplementary Information

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

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability
2017	0.371689%	$ 5,445,455	$ 2,414,953	225.49%	59.20%
2016	0.377207%	4,933,321	2,320,219	212.62%	62.10%
2015	0.363934%	3,813,383	2,111,013	180.64%	66.60%

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

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

See Notes to the Required Supplementary Information

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	2017			
	Original Budget	**Final Budget**	**Actual**	**Variance Favorable (Unfavorable)**
REVENUES				
Local	$ 2,382,793	$ 2,382,793	$ 2,426,519	$ 43,726
State	2,416,038	2,416,038	2,652,603	236,565
Federal	867,974	867,974	858,400	(9,574)
TOTAL REVENUE	5,666,805	5,666,805	5,937,522	270,717
EXPENDITURES				
Salaries	2,790,489	3,159,952	3,121,343	38,609
Employee Benefits	717,379	812,360	773,635	38,725
Purchased Services	1,547,072	1,941,646	2,014,398	(72,752)
Supplies	35,026	39,663	39,794	(131)
Equipment	16,190	18,333	5,731	12,602
Other Objects	16,425	18,600	11,388	7,212
TOTAL EXPENDITURES	5,122,581	5,990,554	5,966,289	24,265
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	544,224	(323,749)	(28,767)	294,982
FUND BALANCE - BEGINNING OF YEAR	1,086,067	1,086,067	1,086,067	-
FUND BALANCE - END OF YEAR	$ 1,630,291	$ 762,318	$ 1,057,300	$ 294,982

See Notes to the Required Supplementary Information

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.

2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15 of each year. The budget is then filed with the county auditor by August 25 of each year.

3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amounts shown in the financial statements are the final authorized amounts.

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

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

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

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

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 Education
Upper Valley Special Education District
Grafton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Upper Valley Special Education District's basic financial statements and have issued our report thereon dated January 12, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The District's Responses to Findings

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

Purpose of This Report

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

Brady Martz

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

January 12, 2018

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited Upper Valley Special Education District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Upper Valley Special Education District's major federal program for the year ended June 30, 2017. The Upper Valley Special Education District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Upper Valley Special Education District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Brady Martz

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

January 12, 2018

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
US Department of Education			
Passed through North Dakota Department of Public Instruction:			
Special Education Cluster			
Special Education Grants to States	84.027	H173A150094	$ 824,555
Special Education Preschool Grants	84.173	H027A150049	33,845
Total Special Education Cluster			858,400
Total Expenditures of Federal Awards			$ 858,400

NOTE 1 SCHEDULE-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations* (CFR) *Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 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?	____ Yes _x_ No
Significant deficiency(ies) indentified that are not considered to be material weaknesses?	_x_ Yes ____ None Reported
Non-compliance material to financial statements noted?	____ Yes _x_ No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	____ Yes _x_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes _x_ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes _x_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	_x_ Yes ____ No

Section II-Financial Statement Findings

2017-001 Finding

Criteria

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

Condition

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

Effect

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

Recommendation

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

Management's Response

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

CORRECTIVE ACTION PLAN (CAP):

1. <u>Correcting Plan</u>
   The financial statements will be reviewed by the Accounting Manager, Director and the Board of Education.

2. <u>Explanation of Disagreement with the Audit Findings</u>
   There is essentially no disagreement with the finding.

3. <u>Official Responsible for Insuring CAP</u>
   The Director is responsible for carrying out the corrective action plan.

4. <u>Planned Completion Date for CAP</u>
   Immediately.

5. <u>Plan to Monitor Completion of CAP</u>
   The Director will monitor completion of the CAP, with reports to the Board of Education, on an annual basis.

2017-002 Finding

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

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

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

Recommendation
The District should separate the duties when it becomes feasible.

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

CORRECTIVE ACTION PLAN (CAP):

1. Correcting Plan
   The District has the following procedures to mitigate the risk:
   1) Review and approval of non-routine journal entries by the Director
   2) Board approves checks
   3) Director periodically reviews bank statement before turning it over to the business Manager for reconciliation.

2. Explanation of Disagreement with the Audit Findings
   There is essentially no disagreement with the finding.

3. Official Responsible for Insuring CAP
   The Director is responsible for carrying out the corrective action plan.

4. Planned Completion Date for CAP
   The District will implement a formal review process immediately.

5. Plan to Monitor Completion of CAP
   The Director and Board of Education will monitor completion of the CAP on an ongoing basis.

Section III-Federal Award Findings and Questioned Costs

There are no findings to be reported in this section.

2016-001 Finding

Criteria

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

Condition

The District's auditors prepared the financial statements as of June 30, 2016. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Effect

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

Recommendation

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

Management's Response

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

CURRENT YEAR STATUS:

See 2017-001

2016-002 Finding

Criteria

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

Condition

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

Effect

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

Recommendation

The District should separate the duties when it becomes feasible.

Management's Response

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

CURRENT YEAR STATUS:

See 2017-002