



Financial Statements
June 30, 2021

North Central Special Education Cooperative

North Central Special Education Cooperative

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Independent Auditor's Report

The Cooperative Board
North Central Special Education Cooperative
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Central Special Education Cooperative (the Cooperative), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Cooperative'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 each major fund of the North Central Special Education Cooperative, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension liability (asset), and schedule of employer's contributions as listed on pages 24 through 29 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 or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2022, on our consideration of the Cooperative'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's 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 Cooperative's internal control over financial reporting and compliance.



Aberdeen, South Dakota
January 11, 2022

North Central Special Education Cooperative
Statement of Net Position
June 30, 2021

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 409,377 |
| Due from state government | 2,478 |
| Net pension asset | 1,290 |
| Total assets | 413,145 |
| Deferred Outflows of Resources | |
| Pension related deferred outflows | 213,927 |
| | \$ 627,072 |
| Liabilities | |
| Accounts payable and accrued liabilities | \$ 82,031 |
| Deferred Inflows of Resources | |
| Pension related deferred inflows | 168,879 |
| Net Position | |
| Restricted for: | |
| SDRS Pension Benefits | 46,338 |
| Special Education | 320,678 |
| Unrestricted | 9,146 |
| Total net position | 376,162 |
| | \$ 627,072 |

North Central Special Education Cooperative
Statement of Activities
Year Ended June 30, 2021

| <u>Functions/Programs</u> | <u>Expenses</u> | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|----------------------------------|---------------------|---------------------------------|---|--|-------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | Primary Government | |
| | | | | <u>Governmental Activities</u> | <u>Total</u> |
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| Instruction | \$ 166,072 | \$ 385,400 | \$ 626,925 | \$ 846,253 | \$ 846,253 |
| Support services | 874,260 | - | - | (874,260) | (874,260) |
| Total governmental activities | <u>\$ 1,040,332</u> | <u>\$ 385,400</u> | <u>\$ 626,925</u> | <u>(28,007)</u> | <u>(28,007)</u> |
| General Revenues | | | | | |
| Unrestricted investment earnings | | | | 124 | 124 |
| Other general revenues | | | | 409 | 409 |
| Total general revenues | | | | <u>533</u> | <u>533</u> |
| Change in Net Position | | | | (27,474) | (27,474) |
| Net Position - Beginning | | | | <u>403,636</u> | <u>403,636</u> |
| Net Position - Ending | | | | <u>\$ 376,162</u> | <u>\$ 376,162</u> |

North Central Special Education Cooperative
Balance Sheet – Governmental Funds
June 30, 2021

| | General Fund | Special Education Fund | Total Governmental Funds |
|--|-----------------|---------------------------|--------------------------------|
| Assets | | | |
| 101 Cash and cash equivalents | \$ 9,999 | \$ 399,378 | \$ 409,377 |
| 140 Due from state government | - | 2,478 | 2,478 |
| | <u>\$ 9,999</u> | <u>\$ 401,856</u> | <u>\$ 411,855</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| 402 Accounts payable | \$ - | \$ 3,453 | \$ 3,453 |
| 404 Contracts payable | 609 | 55,515 | 56,124 |
| 450 Payroll deductions and withholdings and employer matching payable | 244 | 22,210 | 22,454 |
| Total liabilities | <u>853</u> | <u>81,178</u> | <u>82,031</u> |
| Fund Balances | | | |
| 720 Restricted for: Special Education | - | 320,678 | 320,678 |
| 760 Unassigned | 9,146 | - | 9,146 |
| Total fund balances | <u>9,146</u> | <u>320,678</u> | <u>329,824</u> |
| | <u>\$ 9,999</u> | <u>\$ 401,856</u> | <u>\$ 411,855</u> |

North Central Special Education Cooperative
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

| | |
|---|--------------------------|
| Total Fund Balances - Governmental Funds | \$ 329,824 |
| Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because: | |
| Net pension asset, pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds. | <u>46,338</u> |
| Net Position - Governmental Funds | <u><u>\$ 376,162</u></u> |

North Central Special Education Cooperative
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2021

| | General Fund | Special Education Fund | Total Governmental Funds |
|---|-----------------|---------------------------|--------------------------------|
| Revenues | | | |
| 1000 Revenue from local sources | | | |
| 1500 Earnings on investments and deposits | \$ - | \$ 124 | \$ 124 |
| 1700 Co-curricular activities: | | | |
| 1900 Other revenue from local sources: | | | |
| 1940 Services provided other LEAs | 35,400 | 350,000 | 385,400 |
| 1990 Other | - | 409 | 409 |
| 4000 Revenue from federal sources | | | |
| 4100 Grants-in-aid: | | | |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 1,230 | 625,695 | 626,925 |
| Total revenues | <u>36,630</u> | <u>976,228</u> | <u>1,012,858</u> |
| Expenditures | | | |
| 1000 Instruction | | | |
| 1200 Special programs: | | | |
| 1220 Programs for special education | 2,110 | 152,652 | 154,762 |
| 2000 Support services | | | |
| 2100 Pupils: | | | |
| 2140 Psychological | 8,167 | 172,854 | 181,021 |
| 2150 Speech pathology | - | 425,120 | 425,120 |
| 2200 Support services - instructional staff: | | | |
| 2210 Improvement of instruction | 500 | 57,052 | 57,552 |
| 2300 Support services - general administration: | | | |
| 2320 Executive administration | - | 55,706 | 55,706 |
| 2500 Support services - business: | | | |
| 2520 Fiscal services | - | 99,756 | 99,756 |
| Total expenditures | <u>10,777</u> | <u>963,140</u> | <u>973,917</u> |
| Excess of Revenue over Expenditures | <u>25,853</u> | <u>13,088</u> | <u>38,941</u> |
| Other Financing Sources (Uses) | | | |
| 5100 Transfers in | - | 25,000 | 25,000 |
| 8110 Transfers out | (25,000) | - | (25,000) |
| Total other financing sources (uses) | <u>(25,000)</u> | <u>25,000</u> | <u>-</u> |
| Net Change in Fund Balances | 853 | 38,088 | 38,941 |
| Fund Balance - Beginning | <u>8,293</u> | <u>282,590</u> | <u>290,883</u> |
| Fund Balance - Ending | <u>\$ 9,146</u> | <u>\$ 320,678</u> | <u>\$ 329,824</u> |

North Central Special Education Cooperative
Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Government-Wide Statement of Activities
Year Ended June 30, 2021

| | |
|--|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 38,941 |
| Amounts Reported for Governmental Activities in the Statement of Activities are Different Because: | |
| Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds. | <u>(66,415)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (27,474)</u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the North Central Special Education Cooperative (the Cooperative) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The Cooperative was formed in 1971. The Cooperative consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the Cooperative's financial statements to be misleading or incomplete. During fiscal year 2017, the Cooperative changed its board of record from Groton Area School District's board to a separate governing board of elected officials.

The Cooperative is a joint venture that is composed of nine school districts. The Cooperative was formed for the purpose of assisting the member school districts in providing appropriate educational services for all children and to offer, on a cooperative fee assessment basis, services that the member school districts would not be able to provide as effectively or as economically acting alone. Assessments are made based on each member school district's enrollment as listed in the State of South Dakota – Division of Education – Educational Directory. The members of the Cooperative and their relative percentage participation are as follows:

| <u>School District</u> | <u>Percentage</u> |
|------------------------|-------------------|
| Doland | 6.6% |
| Edmunds Central | 5.7% |
| Frederick Area | 6.9% |
| Groton Area | 25.4% |
| Hitchcock-Tulare | 10.0% |
| Langford Area | 9.3% |
| Leola | 9.5% |
| Northwestern Area | 12.9% |
| Warner | 13.7% |
| Total | <u>100.0%</u> |

Basis of Presentation

The financial statements of the Cooperative have been prepared in accordance with generally accepted accounting principles (GAAP) as presented by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the Cooperative as a whole. They include all funds of the Cooperative. Governmental activities generally are financed through grants and other non-exchange revenues.

The statement of net position reports all financial and capital resources in a net position form (assets and deferred outflows of resources minus liabilities and deferred inflows of resources equals net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Cooperative'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) charges paid by recipients of goods and 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

Fund financial statements of the Cooperative are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined; or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Cooperative are described below within their respective fund types.

Governmental Funds

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the Cooperative. The General Fund is always a major fund.

Special Revenue Fund Types – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Special Education Fund – A fund established to provide special education services to participating school districts as funded by federal grants and local assessments. This is a major fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus**Government-Wide Financial Statements**

In the government-wide statement of net position and statement of activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds.

Basis of Accounting**Government-Wide Financial Statements**

In the government-wide statement of net position and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected, or to be collected, soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle and, for the Cooperative, the length of that cycle is 60 days. Revenues which were accrued at June 30, 2021, included \$2,478 due from the State.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

Capital Assets

Capital assets would include equipment and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

At June 30, 2021, the Cooperative does not have any capital assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-------------------------|-----------------------------|------------------------|--------------------------|
| Land* | All | N/A | N/A |
| Improvements | \$ 5,000 | Straight-line | 15-25 years |
| Buildings | 25,000 | Straight-line | 50 years |
| Machinery and equipment | 5,000 | Straight-line | 5-20 years |

**Land is an inexhaustible capital asset and is not depreciated*

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

Unavailable Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have been met, but for which revenue recognition criteria have not been met, are reported as deferred inflows of resources.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The Cooperative does not have any long-term liabilities as of June 30, 2021.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the Cooperative's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for Services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are, otherwise, directly affected by the services.
2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Cash and Cash Equivalents

The Cooperative pools its cash resources for deposit purposes. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts.

Equity Classifications**Government-Wide Statements**

Equity is classified as net position and is displayed in three components, as applicable:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

Governmental fund equity is classified as fund balance and may distinguish between non-spendable, restricted, committed, assigned, and unassigned components.

Application of Net Position

It is the Cooperative's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

The Cooperative classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Cooperative Board or Business Manager.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The Cooperative uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the Cooperative would first use committed, then assigned, and, lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

The Cooperative does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

| | |
|-----------------------------------|---------------------------|
| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
| Special Education Fund | Grants, local assessments |

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS’s fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Cooperative has two items that qualify for reporting in this category: contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Cooperative has one type of item that qualifies for reporting in this category: changes in the net pension liability (asset) not included in pension expense reported in the government-wide statement of net position.

Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments

The Cooperative follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits

The Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. As of June 30, 2021, the financial institution that holds the School District's deposits was not properly collateralized.

Deposits are reported at cost plus interest if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative’s policy is to credit all income from investments to the fund making the investment.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. The School District’s deposit policy requires deposits in excess of the Depository Insurance maximums to be 100% collateralized as required by South Dakota Codified Law. The financial institutions where the collateral is held must be a member of the FDIC.

The actual bank balances at June 30, 2021, were as follows:

| | <u>Bank Balance</u> |
|--|---------------------|
| Insured (FDIC/NCUA) | \$ 250,000 |
| Uninsured, collateral jointly held by State's/Cooperative's agent in the name of the State and the pledging financial institution | <u>159,377</u> |
| | <u>\$ 409,377</u> |
| The Cooperative's carrying amount of deposits at June 30, 2021 | <u>\$ 409,377</u> |

Investments

In general, SDCL 4-5-6 permits the Cooperative’s funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or, (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

There are no investments held as of June 30, 2021.

Custodial Credit Risk – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Cooperative does not have an investment policy for custodial risk. When the Cooperative does own investments, they are held in the Cooperative’s name.

Interest Rate Risk – The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Cooperative has no policy in regard to credit risk.

Concentration of Credit Risk – The Cooperative does not have a policy in place.

Note 3 - Risk Management

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no decreases in coverage from the previous fiscal year and settled claims have not exceeded coverage in any of the three previous fiscal years. During the year ended June 30, 2021, the Cooperative managed its risks as follows:

Employee Health Insurance

The Cooperative joined the South Dakota School District Health Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for a \$1,500 to \$2,500 deductible per person up to \$3,000 to \$5,000 per family, 80/20% coinsurance with up to 80% of \$10,000 to \$20,000, and a lifetime maximum of \$2,000,000 per person.

The Cooperative does not carry additional health insurance to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The Cooperative purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance provider. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation Insurance

The Cooperative participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provides workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Cooperative's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any worker's compensation claims.

The Cooperative pays an annual premium to provide workers' compensation coverage for its employees under a retrospectively rated policy; and, the premiums are accrued based on the ultimate cost of the experience-to-date of the fund members. The Cooperative may also be responsible for additional assessments in the event the pool is determined by its Board of Trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool-retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual, per incident.

The Cooperative does not carry additional insurance to cover claims in excess of the upper limit. Settled claims from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The Cooperative has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

At June 30, 2021, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year.

Note 4 - Restricted Net Position

The following table shows the net assets restricted for other purposes as shown on the statement of net position:

| <u>Fund</u> | <u>Restricted By</u> | <u>Amount</u> |
|-----------------------|----------------------|-------------------|
| SDRS Pension Benefits | Law | \$ 46,338 |
| Special Education | Federal Regulation | 320,678 |
| | | <u>\$ 367,016</u> |

Note 5 - Pension Plan**Plan Information**

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than or equal to the accrued liabilities.

All benefits except those depending on the member's accumulated contributions are annually increased by the Cost-of-Living Adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6.0% of salary; Class B judicial members, 9.0% of salary; and Class B public safety members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2021, 2020, and 2019, were \$38,954, \$39,118, and \$37,896, respectively, equal to the required contributions each year.

Pension Assets, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources to Pensions

At June 30, 2020, SDRS is 100.04% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of SDRS, for the Cooperative as of the measurement period ending June 30, 2020, and reported by the Cooperative as of June 30, 2021, are as follows:

| | |
|---|--------------------------|
| Proportionate share of pension liability | \$ 3,651,831 |
| Less proportionate share of net pension restricted for pension benefits | <u>3,653,121</u> |
| Proportionate share of net pension liability (asset) | <u><u>\$ (1,290)</u></u> |

At June 30, 2021, the Cooperative reported a liability (asset) of \$(1,290) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Cooperative's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the Cooperative's proportion was .02970660%, which is a increase of .000015% from its proportion measured as of June 30, 2019.

North Central Special Education Cooperative

Notes to Financial Statements

June 30, 2021

For the year ended June 30, 2021, the Cooperative recognized pension expense (reduction of pension expense) of \$66,415. At June 30, 2021, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 4,936 | \$ 1,011 |
| Changes in assumption | 41,557 | 167,601 |
| Net difference between projected and actual earnings on pension plan investments | 119,913 | - |
| Changes in proportion and difference between Cooperative contributions and proportionate share of contributions | 8,567 | 267 |
| Cooperative contributions subsequent to the measurement date | 38,954 | - |
| | \$ 213,927 | \$ 168,879 |

There is \$38,954 reported as deferred outflow of resources related to pensions resulting from Cooperative contributions subsequent to the measurement date. This will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

| Year Ended June 30: | Amount |
|------------------------|------------|
| 2022 | \$ (8,723) |
| 2023 | (9,404) |
| 2024 | 1,867 |
| 2025 | 22,354 |
| | \$ 6,094 |

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.25% |
| Salary increases | 6.50% at entry to 3.00% after 25 years of service |
| Investment rate of return | 6.50% net of plan investment expense |
| Future COLAs | 1.41% |

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|------------------------------|---|
| Global Equity | 58.0% | 5.1% |
| Fixed Income | 30.0% | 1.5% |
| Real Estate | 10.0% | 6.2% |
| Cash | 2.0% | 1.0% |
| | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. 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 (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the Cooperative’s proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% as well as what the Cooperative’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|---|--------------------|----------------------------------|--------------------|
| Cooperative's proportionate share of The net pension liability (asset) | \$ 500,493 | \$ (1,290) | \$ (411,739) |

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

Note 6 - Interfund Transfers

Interfund transfers for the year ended June 30, 2021, were as follows:

| <u>Transfers From</u> | <u>Transfers To</u> | |
|-----------------------|-----------------------------------|--------------|
| <u>Major Funds:</u> | <u>Special Education Fund</u> | <u>Total</u> |
| General Fund | \$ 25,000 | \$ 25,000 |

SDCL 13-16-26 gives the Cooperative Board the authority to transfer all or part of any surplus of any Cooperative fund, except the capital outlay fund provided by SDCL 13-16-6 to 13-16-9, inclusive, and the Special Education Fund provided by SDCL 13-37-16, may be transferred to any other Cooperative fund. The interfund transfer above is not a violation of the statutory restrictions on interfund transfers. The transfer above was made to supplement operations.

Note 7 - Litigation

At June 30, 2021, the Cooperative was not involved in any litigation.



Required Supplementary Information
June 30, 2021

North Central Special Education Cooperative

North Central Special Education Cooperative
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1900 Other revenue from local sources: | | | | |
| 1940 Services provided other LEAs | \$ 21,000 | \$ 21,000 | \$ 35,400 | \$ 14,400 |
| 4000 Revenue from federal sources: | | | | |
| 4100 Grants-in-aid: | | | | |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 1,500 | 1,500 | 1,230 | (270) |
| Total revenues | <u>22,500</u> | <u>22,500</u> | <u>36,630</u> | <u>14,130</u> |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | 8,546 | 8,546 | 2,110 | 6,436 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2142 Psychological service | 8,729 | 8,729 | 8,167 | 562 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 500 | 500 | 500 | - |
| Total expenditures | <u>17,775</u> | <u>17,775</u> | <u>10,777</u> | <u>6,998</u> |
| Excess of Revenue over Expenditures | <u>4,725</u> | <u>4,725</u> | <u>25,853</u> | <u>21,128</u> |
| Other Financing Sources (Uses) | | | | |
| 8110 Transfers out | (10,000) | (10,000) | (25,000) | (15,000) |
| Total other financing sources (uses) | <u>(10,000)</u> | <u>(10,000)</u> | <u>(25,000)</u> | <u>(15,000)</u> |
| Net Change in Fund Balances | (5,275) | (5,275) | 853 | 6,128 |
| Fund Balance - Beginning | <u>8,293</u> | <u>8,293</u> | <u>8,293</u> | <u>-</u> |
| Fund Balance - Ending | <u>\$ 3,018</u> | <u>\$ 3,018</u> | <u>\$ 9,146</u> | <u>\$ 6,128</u> |

North Central Special Education Cooperative
 Budgetary Comparison Schedule – Budgetary Basis – Special Education Fund
 Year Ended June 30, 2021

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------|-------------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| 1000 Revenue from local sources | | | | |
| 1500 Earnings on investments and deposits | \$ 300 | \$ 300 | \$ 124 | \$ (176) |
| 1900 Other revenue from local sources: | | | | |
| 1940 Services provided other LEAs | 349,997 | 349,997 | 350,000 | 3 |
| 1990 Other | 9,000 | 9,000 | 409 | (8,591) |
| 4000 Revenue from federal sources | | | | |
| 4100 Grants-in-aid: | | | | |
| 4150-4199 Restricted grants-in-aid received from federal government through the state | 611,661 | 611,661 | 625,695 | 14,034 |
| Total revenues | 970,958 | 970,958 | 976,228 | 5,270 |
| Expenditures | | | | |
| 1000 Instruction | | | | |
| 1200 Special programs: | | | | |
| 1220 Programs for special education | 180,522 | 180,522 | 152,652 | 27,870 |
| 2000 Support services | | | | |
| 2100 Pupils: | | | | |
| 2142 Psychological services | 177,834 | 177,834 | 172,854 | 4,980 |
| 2152 Speech pathology services | 452,349 | 452,349 | 425,120 | 27,229 |
| 2200 Support services - instructional staff: | | | | |
| 2210 Improvement of instruction | 77,141 | 77,141 | 57,052 | 20,089 |
| 2300 Support services - general administration: | | | | |
| 2320 Executive administration | 55,191 | 55,191 | 55,706 | (515) |
| 2500 Support services - business: | | | | |
| 2520 Fiscal services | 107,369 | 107,369 | 99,756 | 7,613 |
| Total expenditures | 1,050,406 | 1,050,406 | 963,140 | 87,266 |
| Excess of Revenue over (under) Expenditures | (79,448) | (79,448) | 13,088 | 92,536 |
| Other Financing Sources | | | | |
| 5110 Transfers in | 10,000 | 10,000 | 25,000 | 15,000 |
| Total other financing sources | 10,000 | 10,000 | 25,000 | 15,000 |
| Net Change in Fund Balances | (69,448) | (69,448) | 38,088 | 107,536 |
| Fund Balance - Beginning | 282,590 | 282,590 | 282,590 | - |
| Fund Balance - Ending | \$ 213,142 | \$ 213,142 | \$ 320,678 | \$ 107,536 |

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedule presents expenditures for capital outlay purposes within each function while the governmental funds statement of revenues, expenditures, and changes in fund balance presents capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

The Cooperative followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular Board meeting in May of each year, the Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in Number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total Cooperative budget and may be transferred by resolution of the Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the Cooperative only.

North Central Special Education Cooperative
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended June 30, 2021

| <u>Pension Plan</u> | <u>Fiscal Year Ending</u> | <u>Employer's Percentage of the Net Pension Liability (Asset)</u> | <u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u> | <u>Employer's Covered Payroll (b)</u> | <u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u> | <u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u> |
|---------------------|---------------------------|---|--|---------------------------------------|---|---|
| SDRS | 6/30/2021 | 0.02970660% | \$ (1,290) | \$ 651,968 | -0.2% | 100.04% |
| SDRS | 6/30/2020 | 0.02970510% | (3,148) | 631,590 | -0.5% | 100.09% |
| SDRS | 6/30/2019 | 0.02981220% | (695) | 619,772 | -0.1% | 100.02% |
| SDRS | 6/30/2018 | 0.03378620% | (3,066) | 686,470 | -0.4% | 100.10% |
| SDRS | 6/30/2017 | 0.03306790% | 111,700 | 628,787 | 17.8% | 96.90% |
| SDRS | 6/30/2016 | 0.03159760% | (134,014) | 576,888 | -23.2% | 104.10% |
| SDRS | 6/30/2015 | 0.02764160% | (199,146) | 483,376 | -41.2% | 107.30% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Cooperative will present information for those years for which information is available.

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability (asset) which is June 30 of the preceding fiscal year.

North Central Special Education Cooperative
Schedule of Employer's Contributions
Year Ended June 30, 2021

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|-----------------------|--|--|---|------------------------|--|
| SDRS | 6/30/2021 | \$ 38,954 | \$ 38,954 | \$ - | \$ 649,226 | 6.0% |
| SDRS | 6/30/2020 | 39,118 | 39,118 | - | 651,968 | 6.0% |
| SDRS | 6/30/2019 | 37,896 | 37,896 | - | 631,590 | 6.0% |
| SDRS | 6/30/2018 | 37,186 | 37,186 | - | 619,772 | 6.0% |
| SDRS | 6/30/2017 | 41,188 | 41,188 | - | 686,470 | 6.0% |
| SDRS | 6/30/2016 | 37,727 | 37,727 | - | 628,787 | 6.0% |
| SDRS | 6/30/2015 | 34,613 | 34,613 | - | 576,888 | 6.0% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Cooperative will present information for those years for which information is available.

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020, and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and QBPA.

Legislation enacted in 2020 also brought the assets and liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of the SDRS Actuarial Valuation Report, all exhibits include the assets, liabilities and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter (CPI-W) over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if, assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019, and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019, and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.



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*

The Cooperative Board
North Central Special Education Cooperative
Aberdeen, South Dakota

We have audited, 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, the financial statements of the governmental activities and each major fund of North Central Special Education Cooperative (the Cooperative) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Cooperative’s basic financial statements, and have issued our report thereon dated January 11, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing 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 Cooperative’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative’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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2021-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative'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 financial statements. 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*.

Cooperative's Response to Finding

North Central Special Education Cooperative's response to the finding identified in our audit is described in the accompanying schedule of findings. The Cooperative'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
January 11, 2022

Current Audit Findings and Recommendations

Finding 2021-001 Preparation of Financial Statements and Footnotes and Material Proposed Adjustments to the Financial Statements

Criteria: The Cooperative's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles. Controls should also be in place to reconcile and review all asset and liability accounts at year-end or more often if needed.

Condition: North Central Special Education Cooperative requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2021. As part of the financial statement preparation process, at times, we propose material audit adjustments that are not identified as a result of the Cooperative's existing internal controls and, therefore, could result in a misstatement of the Cooperative's financial statements. The Cooperative also does not have controls over reconciliation and review process on accounts receivable, accounts payable and contracts payable at year-end.

Cause: The limited size of the Cooperative's staff and resources causes the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the Cooperative's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. 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. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.