

***MORTON-SIOUX
SPECIAL EDUCATION UNIT***

AUDIT REPORT

June 30, 2019

Morton-Sioux Special Education Unit
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For The Year Ended June 30, 2019

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Morton-Sioux Special Education Unit
Mandan, North Dakota

OFFICIALS
2018 – 2019

Jim Gross	Chairman
Justin Fryer	Vice Chairman
Mike Bitz	Board Member
Jeff Fastnacht	Board Member
Myron Schaff	Board Member
Brian Christopherson	Board Member
Penny Veit-Hetletved	Board Member
John Barry	Board Member
Dale Ekstrom	Board Member
Tracy Klein	Director
Ryan Lagasse	Business Manager
Kim Goodhart	Administrative Specialist

INDEPENDENT AUDITOR'S REPORT

Governing Board
Morton-Sioux Special Education Unit
Mandan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Morton-Sioux Special Education Unit, Mandan, North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Unit's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

INDEPENDENT AUDITOR'S REPORT

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 Morton-Sioux Special Education Unit, Mandan, North Dakota as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 and budgetary comparison information on pages 24 through 25 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 Morton-Sioux Special Education Unit's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020, on our consideration of Morton-Sioux Special Education Unit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morton-Sioux Special Education Unit's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 18, 2020

Morton-Sioux Special Education Unit
Management's Discussion and Analysis
June 30, 2019

The Management's Discussion and Analysis (MD&A) of Morton-Sioux Special Education Unit provides an overview and overall review of the Unit's financial activities for the fiscal year ending June 30, 2019. The intent of the MD&A is to look at the Unit's financial performance as a whole. It should therefore, be read in conjunction with the basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2018-2019 fiscal year include the following:

- Net position of Morton-Sioux Special Education Unit increased \$12,277 as a result of the current year's operations.
- Governmental fund assets as of the end of the fiscal year totaled \$1,292,886.
- Total revenues from all sources were \$2,477,645.
- Total fund expenditures were \$2,450,451.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Unit, presenting both an aggregate view of the Unit's finances and a longer-term view of those financed in the short-term as well as what remains for future spending.

REPORTING ON THE UNIT AS A WHOLE

Statement of Net Position and Statement of Activities

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

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

REPORTING ON THE UNIT'S MOST SIGNIFICANT FUNDS

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

Morton-Sioux Special Education Unit
Management's Discussion and Analysis
June 30, 2019

FINANCIAL ANALYSIS OF THE UNIT AS A WHOLE

Table I provides a summary of the Unit's net position as of June 30, 2019 with comparative amounts for the prior year.

As indicated in the financial highlights above, the Unit's net position increased by \$12,277 for the year ended June 30, 2019. Changes in net position may serve over time as a useful indicator of the Unit's financial position.

The Unit's net position of \$507,263 is segregated into two separate categories. The net investment in capital assets represents 7% of the Unit's net position. It should be noted that these assets are not available for future spending. The remaining unrestricted net position represents 93% of the Unit's net position. The unrestricted net position is available to meet the Unit's ongoing obligations.

TABLE I
NET POSITION

June 30, 2019

(With Comparative Totals for June 30, 2018)

	2019	2018
Current Assets	\$ 1,292,886	\$ 646,812
Capital Assets (net of accumulated depreciation)	37,541	30,347
Total Assets	1,330,427	677,159
Current Liabilities	784,149	165,269
Long-Term Liabilities	39,015	16,904
Total Liabilities	823,164	182,173
Net Position		
Net Investment in Capital Assets	37,541	30,347
Unrestricted	469,722	464,639
Total Net Position	\$ 507,263	\$ 494,986

Morton-Sioux Special Education Unit
Management's Discussion and Analysis
June 30, 2019

Table II shows the changes in net position for the fiscal year ended June 30, 2019 with comparative amounts for the prior year.

TABLE II
CHANGES IN NET POSITION
June 30, 2019
(With Comparative Totals for June 30, 2018)

<u>Governmental Activities</u>	<u>2019</u>	<u>2018</u>
Revenues		
<u>Program Revenues</u>		
Charges for Services	\$ 118,011	\$ 179,011
<u>General Revenues</u>		
Federal Aid - not restricted to specific program	1,356,323	1,325,106
Medicaid Reimbursements	20,100	29,140
District Assessments	115,075	115,077
Student Contracts	855,645	781,775
Miscellaneous Revenue	10,671	2,171
Earnings on Investments	1,820	78
Sale of Fixed Assets	-	2,087
Total Revenues	<u>2,477,645</u>	<u>2,434,445</u>
Expenses		
Hearing Impaired	1,892	2,327
Visually Impaired	78,063	84,423
Social Work Services	3,100	54,986
Psychological Testing	485,166	475,543
Audiology Services	-	500
Speech Pathology Services	117,236	166,215
Occupational Therapy	33,412	37,703
Physical Therapy	43,414	42,214
Other Student Support Services	152,886	93,780
Support Services - Instr. Staff	88,223	81,212
Governance Board	26,893	37,728
Support Services - Business	253,323	228,484
Other Support Services	1,011	1,330
Payments to LEA's	1,180,749	1,079,295
Total Expenses	<u>2,465,368</u>	<u>2,385,740</u>
Increase (Decrease) in Net Position	12,277	48,705
Beginning Net Position	<u>494,986</u>	<u>446,281</u>
Ending Net Position	<u>\$ 507,263</u>	<u>\$ 494,986</u>

Morton-Sioux Special Education Unit
Management's Discussion and Analysis
June 30, 2019

Unrestricted federal aid and Medicaid reimbursements constituted 55%, student contracts 34%, charges for services 5%, district assessments 5%, and other miscellaneous sources made up 1% of the total revenues of governmental activities of the Unit for fiscal year 2018-2019.

The largest expense functions of the Unit are Payments to Local Education Associations (LEAs) (48%), psychological testing (20%), and business support services (10%).

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

TABLE III
TOTAL AND NET COSTS OF SERVICES

As of June 30, 2019
(With Comparative Totals for June 30, 2018)

	June 30, 2019		June 30, 2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Hearing Impaired	\$ 1,892	\$ (1,892)	\$ 2,327	\$ (2,327)
Visually Impaired	78,063	(78,063)	84,423	(84,423)
Social Work Services	3,100	(3,100)	54,986	(54,986)
Psychological Testing	485,166	(485,166)	475,543	(475,543)
Audiology Services	-	-	500	(500)
Speech Pathology Services	117,236	500	166,215	(24,906)
Occupational Therapy	33,412	(33,137)	37,703	(1)
Physical Therapy	43,414	(43,414)	42,214	(42,214)
Other Student Support Services	152,886	(152,886)	93,780	(93,780)
Support Services - Instr. Staff	88,223	(88,223)	81,212	(81,212)
Governance Board	26,893	(26,893)	37,728	(37,728)
Support Services - Business	253,323	(253,323)	228,484	(228,484)
Other Support Services	1,011	(1,011)	1,330	(1,330)
Payments to LEA's	1,180,749	(1,180,749)	1,079,295	(1,079,295)
	<u>\$ 2,465,368</u>	<u>\$ (2,347,357)</u>	<u>\$ 2,385,740</u>	<u>\$ (2,206,729)</u>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the Unit's governmental funds is to provide information on the near-term inflows, outflows, and balances of available resources. Unassigned fund balance generally can be used as a measure of the Unit's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The Unit's governmental funds had total revenue and other sources of \$2,477,645 and expenditures of \$2,450,451 for the year ended

Morton-Sioux Special Education Unit
Management's Discussion and Analysis
June 30, 2019

June 30, 2019. As of June 30, 2019, the unassigned fund balance of the Unit's general fund was \$508,737.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2018-2019, the Morton-Sioux Special Education Unit amended the Unit's general fund budget. The gross effect of the amendments was to increase expenditures and revenues by \$64,700 and \$76,855 respectively.

Actual revenue for the year ended June 30, 2019 was over budget by \$710. Actual expenditures for the year ended June 30, 2019 were over budget by \$3,231.

CAPITAL ASSETS

As of June 30, 2019, the Morton-Sioux Special Education Unit had \$37,541 invested in capital assets. This is an increase of \$7,194 from the prior year.

TABLE IV
CAPITAL ASSETS
(Net of Accumulated Depreciation)
As of June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Furniture & Equipment	\$ 36,839	\$ 36,839
Vehicles and Equipment	106,768	91,226
Less Accumulated Depreciation	<u>(106,066)</u>	<u>(97,718)</u>
Net Capital Assets	<u>\$ 37,541</u>	<u>\$ 30,347</u>

DEBT ADMINISTRATION

The Morton-Sioux Special Education Unit did not have any long-term debt as of June 30, 2019. Long-term liabilities include compensated absences payable.

CONTACTING THE UNIT'S FINANCIAL MANAGEMENT

Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Ryan Lagasse, Business Manager, Mandan Public Schools, 901 Division Street NW, Mandan, ND 58554; phone 701-751-6500, fax 701-663-0328, or email Ryan.Lagasse@msd1.org.

Morton-Sioux Special Education Unit
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 209,072
Due from Other Governments	1,083,814
Capital Assets	
Furniture & Equipment	36,839
Vehicles	106,768
Less Accumulated Depreciation	(106,066)
Net Capital Assets	37,541
TOTAL ASSETS	1,330,427
LIABILITIES	
Current Liabilities:	
Accounts Payable	618,251
Accrued Salaries & Benefits	165,898
Long-Term Liabilities:	
Due After One Year	
Compensated Absences Payables	39,015
Total Liabilities	823,164
NET POSITION	
Net Investment in Capital Assets	37,541
Unrestricted	469,722
TOTAL NET POSITION	\$ 507,263

Morton-Sioux Special Education Unit
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants & Contributions	Revenue & Changes in Net Position
Governmental Activities				
Hearing Impaired	\$ 1,892	\$ -	\$ -	\$ (1,892)
Visually Impaired	78,063	-	-	(78,063)
Social Work Services	3,100	-	-	(3,100)
Psychological Testing	485,166	-	-	(485,166)
Speech Pathology Services	117,236	117,736	-	500
Occupational Therapy	33,412	275	-	(33,137)
Physical Therapy	43,414	-	-	(43,414)
Other Student Support Services	152,886	-	-	(152,886)
Support Services - Instr. Staff	88,223	-	-	(88,223)
Governance Board	26,893	-	-	(26,893)
Support Services - Business	253,323	-	-	(253,323)
Other Support Services	1,011	-	-	(1,011)
Payments to LEA's	1,180,749	-	-	(1,180,749)
Total Primary Government	\$ 2,465,368	\$ 118,011	\$ -	(2,347,357)

General Revenues:

Federal Aid - not restricted to specific program	1,356,323
Medicaid Reimbursements	20,100
District Assessments	115,075
Student Contracts	855,645
Miscellaneous Income	10,671
Earnings on Investments	1,820
Total General Revenues	2,359,634

Change in Net Position	12,277
Net Position - Beginning of Year	494,986
Net Position - End of Year	\$ 507,263

Morton-Sioux Special Education Unit
Balance Sheet - Governmental Fund
June 30, 2019

	General
ASSETS	
Cash and Cash Equivalents	\$ 209,072
Due from Other Governments	1,083,814
	1,292,886
TOTAL ASSETS	\$ 1,292,886
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 618,251
Accrued Salaries & Benefits	165,898
	784,149
Fund Balances:	
Unassigned	508,737
	508,737
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,292,886

Morton-Sioux Special Education Unit
 Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
 For the year ended June 30, 2019

Total Fund Balances for Governmental Funds	\$	508,737
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	\$	143,607
Less Accumulated Depreciation		(106,066)
Net Capital Assets		37,541
Long-term liabilities applicable to the Special Education Unit's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities consist of compensated absences in the amount of:		
		(39,015)
Change in net position of governmental activities	\$	507,263

Morton-Sioux Special Education Unit
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the year ended June 30, 2019

	General
REVENUES	
Local Sources	\$ 243,757
State Sources	855,645
Federal Sources	1,356,323
Medicaid	20,100
Miscellaneous Sources	1,820
TOTAL REVENUES	2,477,645
EXPENDITURES	
Current:	
Hearing Impaired	1,892
Visually Impaired	78,063
Social Work Services	3,100
Psychological Testing	485,166
Speech Pathology Services	117,236
Occupational Therapy	33,412
Physical Therapy	43,414
Other Student Support Services	129,892
Support Services - Instr. Staff	88,223
Governance Board	26,893
Support Services - Business	261,400
Other Support Services	1,011
Payments to LEA's	1,180,749
TOTAL EXPENDITURES	2,450,451
NET CHANGE IN FUND BALANCES	27,194
Fund Balances - July 1, 2018	481,543
FUND BALANCES - JUNE 30, 2019	\$ 508,737

Morton-Sioux Special Education Unit
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
 Balances of Governmental Fund to the Statement of Activities
 For the year ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$	27,194
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Current Year Capital Outlay		15,542
Current Year Depreciation Expense		(8,348)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The net change in compensated absences is:

		<u>(22,111)</u>
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Change in net position of governmental activities	\$	<u><u>12,277</u></u>
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Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the Unit's financial statements include all accounts of the Unit's operations. The criteria for including organizations as component units within the Unit's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Unit holds the corporate powers of the organization
- the Unit appoints a voting majority of the organization's board
- the Unit is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Unit
- there is a fiscal dependency by the organization on the Unit

The Unit receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the Unit as a reporting entity and the Unit is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Currently, the Unit has no fiduciary or business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The Unit has no proprietary or fiduciary activities at this time. These statements present each major fund as a separate column on the fund financial statements (the Unit has only one fund); any non-major funds would be aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The Unit has presented the following major fund:

General Fund: The General Fund is the main operating fund of the Unit. This fund is used to account for all financial resources not accounted for in other funds. All general revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are assessments, franchise fees, licenses, charges for services, interest income, and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balance is provided at year-end.

E. Deposits

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

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

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

At June 30, 2019, the Unit's carrying balances were \$209,072. The bank balance of these deposits as of June 30, 2019 was \$312,292. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$62,292 was collateralized with securities held by the pledging financial institutions' agency not in the Unit's name.

Credit Risk: The Unit may invest idle funds as authorized in North Dakota Statutes, as follows:

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

Concentration of credit risk: The Unit does not have a limit on the amount the Unit may invest in any one issuer.

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets/Capital Outlays

Capital assets, which currently include furniture and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more (individually or collectively) and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for the furniture and equipment range from five to twenty years. Estimated useful lives for vehicles are eight years.

G. Accrued Compensated Absences

The Unit's policy permits teachers and administrative personnel to accumulate a limited amount of vacation leave not to exceed 320 hours and personal leave not to exceed 6 days. Compensation for unused vacation and personal leave will be paid to employees upon separation of employment from Morton-Sioux Special Education Unit. A long-term liability for accrued personal and vacation leave as of June 30th has been recorded in the government-wide statements.

Compensation for unused sick leave will be granted to all employees upon termination of employment of 20 or more years. Employees may carry forward unused sick leave equal to one year of employment. The severance payment will be based on 70% of accumulated leave for employees with 20 to 24 years of service and 100% of accumulated sick leave for employees with 25 or more years of service. Hourly employees will be paid at minimum wage. Certified staff with 20 to 24 years of service is paid \$67 per day for the 2018-2019 school year and certified staff with 25 or more years of service is paid \$92 per day for the 2018-2019 school year. A long-term liability for accrued sick leave as of June 30th has been recorded in the government-wide statements.

H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Unit board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 – 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 board – the Unit’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the board removed 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 Unit’s “intent” to be used for special purposes but are neither restricted nor committed. The 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, the Unit’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

NOTE 2 CASH

Cash includes amounts in demand deposits.

NOTE 3 DUE FROM OTHER GOVERNMENTS

Due from other governments consist of amounts due from other school districts for services provided to those school districts and from the Department of Public Instruction for grant monies owed to the Unit for services provided by the Unit. No allowance has been established for uncollectible accounts as all accounts are considered to be collectible.

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2019.

	Capital Assets	Accumulated Depreciation
Balance, June 30, 2018	\$ 128,065	\$ 97,718
Purchases, Fiscal Year 2019	15,542	-
Disposals, Fiscal Year 2019	-	-
Depreciation Expense, Fiscal Year 2019	-	8,348
Balance, June 30, 2019	\$ 143,607	\$ 106,066

Depreciation expense was charged to functions/programs of the Special Education Unit as follows:

Governmental Activities:		
Other Student Support Services	\$	883
Support Services - Business		7,465
Total Depreciation Expense	\$	8,348

NOTE 5 ACCOUNTS PAYABLE

Accounts payable consists of amounts owing on open account to individuals and organizations for goods and services received prior to June 30, 2019.

NOTE 6 SALARIES AND BENEFITS PAYABLE

This payable consists of amounts owed to individuals for services performed prior to June 30, 2019.

NOTE 7 LONG-TERM DEBT

During the year ended June 30, 2019 the following changes occurred in long-term liabilities:

	Balance July 1	Net Change	Balance, June 30
Compensated Absences	\$ 16,904	\$ 22,111	\$ 39,015

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

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 8 RISK MANAGEMENT

The Morton-Sioux Special Education Unit is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), 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 Morton-Sioux Special Education Unit pays an annual premium to NDRIF for its general liability and automobile. The coverage by NDRIF is limited to losses of two million dollars per occurrence.

Morton-Sioux Special Education Unit participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

Morton-Sioux Special Education Unit also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Special Education Unit pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$250,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Morton-Sioux Special Education Unit participates in the Mandan Public School District employee health and accident insurance.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Morton-Sioux Special Education Unit
Notes to Basic Financial Statements
June 30, 2019

NOTE 9 PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

Mandan Public School District No. 1 employs the staff of Morton-Sioux Special Education Unit. Morton-Sioux Special Education Unit reimburses Mandan Public School District No. 1 for actual costs contributed to the pension plans described below. Mandan Public School District No. 1 has implemented GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

The net pension and OPEB liability, deferred outflows of resources, and deferred inflows of resources for Morton-Sioux Special Education Unit have not been segregated.

1. North Dakota Teacher's Fund for Retirement

The contribution rate is 12.75% for the employer. The employee contribution is 11.75%. The actual cost to Morton-Sioux Special Education Unit is \$99,267. For a detailed look at TFFR, please refer to Mandan Public School District's audit report. For the year ended June 30, 2019, Morton-Sioux Special Education Unit employees comprised 3.70% of Mandan Public School District No. 1's total payroll.

2. North Dakota Public Employees Retirement System and OPEB

The contribution rate is 7.12% for the employer along with an additional 1.14% for a prefunded retiree health insurance program (OPEB). The employee contribution is 7.00%. The actual cost to Morton-Sioux Special Education unit is \$9,558. For a detailed look at NDPERS, please refer to Mandan Public School District's audit report. For the year ended June 30, 2019, Morton-Sioux Special Education Unit employees comprised 0.73% of Mandan Public School District No. 1's total payroll.

***REQUIRED
SUPPLEMENTARY INFORMATION***

Morton-Sioux Special Education Unit
 Budgetary Comparison Schedule
 General Fund
 For the year ended June 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual (Budgetary Basis)	
REVENUES				
Local Sources	\$ 233,697	\$ 244,152	\$ 243,757	\$ (395)
State Sources	780,000	854,200	855,645	1,445
Federal Sources	1,386,323	1,376,823	1,376,423	(400)
Miscellaneous Sources	60	1,760	1,820	60
TOTAL REVENUES	2,400,080	2,476,935	2,477,645	710
EXPENDITURES				
Current:				
Hearing Impaired	-	-	1,892	(1,892)
Visually Impaired	87,629	79,955	78,063	1,892
Social Work Services	5,514	3,100	3,100	-
Psychological Testing	490,266	486,215	485,166	1,049
Audiology Services	6,000	-	-	-
Speech Pathology Services	118,620	118,620	117,236	1,384
Occupational Therapy	83,387	76,799	33,412	43,387
Physical Therapy	-	-	43,414	(43,414)
Other Student Support Services	120,190	129,891	129,892	(1)
Support Services - Instr. Staff	70,901	90,332	88,223	2,109
Governance Board	24,300	22,782	26,893	(4,111)
Support Services - Business	258,810	258,810	261,400	(2,590)
Other Support Services	1,900	1,013	1,011	2
Payments to LEA's	1,115,003	1,179,703	1,180,749	(1,046)
TOTAL EXPENDITURES	2,382,520	2,447,220	2,450,451	(3,231)
NET CHANGE IN FUND BALANCES	17,560	29,715	27,194	(2,521)
Fund Balances - July 1, 2018	481,543	481,543	481,543	-
FUND BALANCES - JUNE 30, 2019	\$ 499,103	\$ 511,258	\$ 508,737	\$ (2,521)

Morton-Sioux Special Education Unit
Notes to Required Supplementary Information
June 30, 2019

NOTE 1 LEGAL COMPLIANCE - BUDGETS

The Board of Directors adopts the special education unit budget on the modified accrual basis of accounting for the general fund. The budget includes proposed expenditures and the means of financing them. Each budget is controlled by the director at the revenue and expenditure function/object level. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

NOTE 2 EXPENSES IN EXCESS OF BUDGET

For the fiscal year ended June 30, 2019, the expenses as a whole were over budget by \$3,231. No remedial action is anticipated.

Morton-Sioux Special Education Unit
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
<u>Passed through the State Department of Public Instruction:</u>			
<u>Special Education Cluster</u>			
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	\$ 1,290,084
Special Education - Preschool Grants (IDEA Preschool)	84.173	N/A	<u>66,239</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,356,323</u></u>

Morton-Sioux Special Education Unit
Notes to Schedule of Expenditures of Federal Awards
For the Year Ending June 30, 2019

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by the U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Morton-Sioux Special Education Unit received no nonmonetary federal assistance during the year ended June 30, 2019. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs

Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the modified accrual basis of accounting.

E. Elections

The organization has not elected to use the 10 percent de minimis indirect cost rate.

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*

Governing Board
Morton-Sioux Special Education Unit
Mandan, 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 Morton-Sioux Special Education Unit as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Morton-Sioux Special Education Unit's basic financial statements and have issued our report thereon dated February 18, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2019-001 and 2019-002 that we consider to be significant deficiencies.

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*

Compliance and Other Matters

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

Morton-Sioux Special Education Unit's Response to Findings

Morton-Sioux Special Education Unit's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Morton-Sioux Special Education Unit'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 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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 18, 2020

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

Governing Board
Morton-Sioux Special Education Unit
Mandan, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Morton-Sioux Special Education Unit's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morton-Sioux Special Education Unit's major federal programs for the year ended June 30, 2019. Morton-Sioux Special Education Unit's major federal programs are 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 each of Morton-Sioux Special Education Unit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Morton-Sioux Special Education Unit'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 of Morton-Sioux Special Education Unit's compliance.

Opinion on Each Major Federal Program

In our opinion, Morton-Sioux Special Education Unit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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

Report on Internal Control over Compliance

Management of Morton-Sioux Special Education Unit 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 Morton-Sioux Special Education Unit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morton-Sioux Special Education Unit'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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 18, 2020

Morton-Sioux Special Education Unit
 Schedule of Findings and Questioned Costs
 For The Year Ended June 30, 2019

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	No
Significant deficiency identified?	Yes

Noncompliance material to financial statements noted?	No
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Federal Awards

Internal control over major programs:

Material weaknesses identified?	No
Significant deficiency identified?	No

Type of auditor's report issued on compliance for major federal programs?	Unmodified
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Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	No
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Identification of major programs:

Special Education Cluster
 84.027 - Special Education – Grants to States (IDEA, Part B)
 84.173 - Special Education – Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish between Type A and B programs?	\$750,000
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Auditee qualified as a low-risk auditee?	Yes
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Morton-Sioux Special Education Unit
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2019

Section II – Financial Statement Findings

Finding 2019-001: Segregation of Duties

Condition – The Unit has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – This is not unusual in organizations of your size and under these conditions. However, the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Management Response – The Unit is aware of the limitations and has determined additional staff is not feasible. The Unit will monitor the condition.

Finding 2019-002: Preparation of Financial Statements

Condition – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including the notes to the financial statements.

Criteria – The Unit does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the notes to the financial statements. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Cause – The preparation of financial statements and related notes is very technical and requires a significant amount of time.

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

Recommendation – This is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision as to whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – The Unit has decided to accept the degree of risk associated with the Unit not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Section III – Federal Award Findings

No matters were reported.

Morton-Sioux Special Education Unit
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2019

Section IV – Prior Audit Findings

Finding 2018-001: Segregation of Duties

Condition – The Unit has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the Unit, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Management Response – The executive director will store his own signature stamp, eliminating access to any other individual.

Status of Finding – The finding is repeated in the current year. See 2019-001.

Finding 2018-002: Preparation of Financial Statements

Condition – A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including the notes to the financial statements.

Criteria – The Unit does not have an internal control system designed to provide for the preparation of the financial statements being audited, including the notes to the financial statements. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Cause – The preparation of financial statements and related notes is very technical and requires a significant amount of time.

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

Recommendation – This is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision as to whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – The Unit has decided to accept the degree of risk associated with the Unit not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Status of Finding – The finding is repeated in the current year. See 2019-002.