Financial Statements
June 30, 2022

Lake Region Special Education District

Governing Board

Name	District	Position
Jean Callahan	Minnewaukan	Board President
Kevin Baumgarn	Lakota	Board Vice-President
Jay Slade	Dakota Prairie	Board Member
Frank Schill	Edmore	Board Member
Matt Bakke	Devils Lake	Board Member
Daren Christianson	Langdon Area	Board Member
Robert Thome	Leeds and Maddock	Board Member
Robert Bubach	Munich	Board Member
Jeff Hagler	North Star	Board Member
Larry Volk	Starkweather	Board Member
Angela Brandt	Warwick	Board Member

Administration

Rhandi Knutson	Director
Lisa Craddock	Business Manager

Independent Auditor's Report

To the Governing Board
Lake Region Special Education District
Devils Lake, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of Lake Region Special Education District ("the District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 District, as of June 30, 2022, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Note 7 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities right to use lease asset and lease liability as of July 1, 2021. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of employer's share of net pension liability and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues – budget to actual; schedule of expenditures – budget to actual; and schedule of expenditures of federal awards as required by *Title 2 U.S.* Code of Federal Regulations *Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are 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 revenues – budget to actual; schedule of expenditures – budget to actual; and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the governing board and administration listing but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District'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 District's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
March 6, 2023

This section of the annual financial report for Lake Region Special Education District (the District) presents management's discussion and analysis of the financial performance of the Lake Region Special Education District during the fiscal year that ended on June 30, 2022. This information is presented in conjunction with the audited financial statements of Lake Region Special Education District, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2021-2022 fiscal year include the following:

- General Fund – The overall revenues were $6,564,389 while the overall expenditures were $6,484,949. These, along with the net other financing sources of $42,611 increased the fund balance by $122,051.

Overview of the Financial Statements

The annual report consists of three parts - Independent Auditors' Report, required supplementary information, which includes the Management's Discussion and Analysis, and the Financial Statements. The financial statements include two kinds of statements that present different views of the District.

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

- The general fund statements tell how basic services such as administration and special education were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis
2. Basic Financial Statements
    - District-Wide Financial Statements
    - Fund Financial Statements
3. Additional Reports
    - Schedule of Expenditures of Federal Awards

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the District's financial health or position.

In the district-wide financial statements the District's activities are shown in as governmental activities. This covers the District's basic services of special education and administration.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's general fund. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

The District has only the general fund. The general fund is a governmental fund that focuses on:

1. how cash and other financial assets that can readily be converted to cash flow in and out and
2. the balances left at year-end that are available for spending.

Consequently, the general fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the general fund statements that explains the relationship (or differences) between them.

Financial Analysis of the District as a Whole

Net Position – The District's combined net position was a negative $2,825,963 on June 30, 2022.

Statement of Net Position
June 30, 2022 and 2021

	2022	2021 (as restated)
Assets		
Current assets	$ 1,452,555	$ 1,338,284
Capital assets	482,683	440,090
Total assets	1,935,238	1,778,374
Deferred Outflows of Resources	1,257,026	1,729,125
Liabilities		
Other liabilities	449,187	456,967
Long-term liabilities	3,396,575	5,633,391
Total liabilities	3,845,762	6,090,358
Deferred Inflows of Resources	2,172,465	597,490
Net Position		
Investment in capital assets	475,135	440,090
Unrestricted	(3,301,098)	(3,620,439)
Total net position	$ (2,825,963)	$ (3,180,349)

Statement of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Revenues		
Program revenues		
Charges for service	$ 1,035,041	$ 935,862
Operating grants and contributions	1,414,901	1,220,657
General		
District assessments	430,871	408,412
State aid - unrestricted	3,595,185	3,648,380
Miscellaneous revenues	131,002	75,868
Total revenues	6,607,000	6,289,179
Expenses		
Administration	460,860	433,303
Instruction	5,791,754	6,186,299
Total expenses	6,252,614	6,619,602
Change in Net Position	354,386	(330,423)
Net Position - Beginning	(3,180,349)	(2,849,926)
Net Position - Ending	$ (2,825,963)	$ (3,180,349)

Total revenue is comprised primarily of federal funds to cover eligible expenditures and fees for services from our member school districts.

Total costs of all programs and services was $6,252,614. The District's expenses are entirely related to educating and caring for special education students and the administration of those services.

Total revenues exceeded expenses, increasing net position by $354,386.

Financial Analysis of the District's General Fund

The financial performance of the District as a whole is reflected in its general fund. The general fund completed the year with a fund balance of $1,003,368 which is an increase of $122,051 from the prior year.

General Fund

The General Fund includes the primary operations of the District in providing special educational services to students and the administration of those services.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2022	2021		
Other Local Sources	$ 519,262	$ 462,348	$ 56,914	12.3%
State Sources	3,595,185	3,648,380	(53,195)	-1.5%
Federal Sources	1,634,035	1,402,776	231,259	16.5%
Interdistrict Sources	815,907	753,743	62,164	8.2%
Total General Fund Revenues	$ 6,564,389	$ 6,267,247	$ 297,142	4.7%

Total General Fund Revenue increased by $297,142 or 4.7% from the previous year primarily due to increases in federal and inter district funding.

The following schedule presents a summary of General Fund Expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2022	2021		
Salaries And Benefits	$ 3,942,279	$ 4,010,072	$ (67,793)	-1.7%
Purchased Services	926,409	794,388	132,021	16.6%
Supplies, Materials And Travel	1,591,422	1,463,218	128,204	8.8%
Discretionary Grant	3,764	3,043	721	23.7%
Other Expenditures	21,075	3,908	17,167	439.3%
Total General Fund Expenditures	$ 6,484,949	$ 6,274,629	$ 210,320	3.4%

Total General Fund Expenditures increased by $210,320 or 3.4% from the previous year. The District experienced an increase in purchased services and supplies and materials due to an increased number of students in boarding care, an increased amount of in-person and travel events after the pandemic, and purchase of computer and technology equipment.

General Fund Budgetary Highlights

A summary of the Lake Region Special Education District actual financial results for fiscal year 2022 as compared to budget is presented below.

Total revenue is comprised primarily of federal funds and from fees for services from our member school districts. Total revenues were $419,467 less than budget for the year ended June 30, 2022.

From an expenditure standpoint, total expenditures were under budget by $696,960. Expenditures are broken down by departmental area. In general, Lake Region Special Education District has attempted to operate in a conservative manner and contain costs where appropriate.

Capital Assets

By the end of fiscal year 2022, the District had invested $805,992 in a broad range of capital assets, including buildings, land improvements, equipment, and district vehicles. Total depreciation/amortization expense for the year was $36,305. Note 4 presents the detail of the District's capital assets.

Capital Assets
June 30, 2022 and 2021

	2022	2021 (as restated)
Buildings	$ 543,969	$ 543,969
Land Improvements	16,342	16,342
Equipment	11,664	11,664
Vehicles	218,063	139,165
Right-To-Use Leased Equipment	15,954	15,954
Accumulated Deprecation/Amortization	(323,309)	(287,004)
	$ 482,683	$ 440,090

Long-Term Liabilities

At year-end, the District had $3,396,575 in long-term liabilities at year end, consisting of compensated absences of $65,175, lease liabilities of $7,548, and net pension liability of $3,323,852.

Factors Bearing on the Future of the Lake Region Special Education District

The Lake Region Special Education District has benefited from adequate support of member school districts. The District has also benefited from continued funding from the State of North Dakota. These elements have enabled the District to meet many of its instructional and administrative staffing needs.

With the ongoing COVID-19 Pandemic, the District anticipates revenue shortfalls and some reduction in expenditures due to the temporary closing of facilities and lack of public program income during the quarantine period. The District continues to provide educational opportunities to students. The District has maintained strong reserve balances which will help bridge financial gaps in revenue projections.

Contacting the Financial Management of the Lake Region Special Education District

This financial report is designed to provide the user a general overview of the financial results of Lake Region Special Education District. If you have any questions about this report or would like additional information, contact the Business Manager, Lake Region Special Education District, 801 5th Ave. SE, Devils Lake, North Dakota 58301.

Assets	
Cash and cash equivalents	$ 821,469
Due from federal government	631,086
Total current assets	1,452,555
Capital Assets	
Building	543,969
Land improvements	16,342
Equipment	11,664
Vehicles	218,063
Right-to-use lease equipment	15,954
Less accumulated depreciation	(323,309)
Total capital assets, net of depreciation	482,683
Total assets	1,935,238
Deferred Outflows of Resources	
Pension plans	1,257,026
Liabilities	
Accrued wages and benefits payable	449,187
Long-term liabilities	
Portion due within one year - other than pensions	69,917
Portion due in more than one year - other than pensions	2,806
Portion due in more than one year - net pension liability	3,323,852
Total liabilities	3,845,762
Deferred Inflows of Resources	
Pension plans	2,172,465
Net Position	
Investment in capital assets	475,135
Unrestricted	(3,301,098)
Total net position	$ (2,825,963)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Administration	$ 460,860	$ -	$ -	$ (460,860)
Instruction	5,791,754	1,035,041	1,414,901	(3,341,812)
Total governmental activities	$ 6,252,614	$ 1,035,041	$ 1,414,901	(3,802,672)
General Revenues				
District Assessments				430,871
Revenue from State Sources: State Foundation Aid				3,595,185
Other General Revenues				131,002
Total general revenues				4,157,058
Change in net position				354,386
Net position - beginning				(3,180,349)
Net position - ending				$ (2,825,963)

Assets	
Cash and cash equivalents	$ 821,469
Due from federal government	631,086
Total assets	$ 1,452,555
Liabilities and Fund Balance	
Liabilities	
Accrued wages and benefits payable	$ 449,187
Fund Balance	
Unassigned	1,003,368
Total liabilities and fund balance	$ 1,452,555

Total Fund Balance - Governmental Fund	$ 1,003,368
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	482,683
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(915,439)
Long-term liabilities, including lease liabilities, compensated absences, and pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,396,575)
Total Net Position - Governmental Activities	$ (2,825,963)

Revenues	
Local sources	$ 519,262
Federal sources	1,634,035
State sources	3,595,185
Interdistrict sources	815,907
Total revenues	6,564,389
Expenditures	
Administration	460,860
Special education instruction	1,458,161
Preschool instruction	405,427
Mentally handicapped instruction	369,863
Speech therapy	880,156
Emotionally disturbed	128,000
Learning disabilities	1,010,113
Student contracts	420,049
Unrestricted-State	3,764
Restricted-Federal	1,348,556
Total expenditures	6,484,949
Excess of Revenues Over Expenditures	79,440
Other financing sources	
Insurance proceeds	42,611
Net Change in Fund Balance	122,051
Fund Balance, Beginning of Year	881,317
Fund Balance, End of Year	$ 1,003,368

Net Change in Fund Balance - Governmental Fund	$ 122,051
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation/amortization expense. This is the amount by which capital outlays were exceeded by depreciation/amortization expense and disposals in the current period.	42,593
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This is the net effect of these differences in the treatment of long-term debt and related items.	9,225
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	172,111
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	8,406
Change in Net Position of Governmental Activities	$ 354,386

	Original & Final Budget	Actual	Variance with Final Budget
Revenues			
Local sources	$ 498,400	$ 519,262	$ 20,862
Federal sources	1,947,209	1,634,035	(313,174)
State sources	3,734,114	3,595,185	(138,929)
Interdistrict sources	804,133	815,907	11,774
Total revenues	6,983,856	6,564,389	(419,467)
Expenditures			
Administration	473,569	460,860	12,709
Special education instruction	1,482,569	1,458,161	24,408
Preschool instruction	406,597	405,427	1,170
Mentally handicapped instruction	370,380	369,863	517
Speech therapy	999,488	880,156	119,332
Emotionally disturbed	128,000	128,000	-
Learning disabilities	1,133,280	1,010,113	123,167
Student contracts	500,000	420,049	79,951
Unrestricted-State	44,000	3,764	40,236
Restricted-Federal	1,644,026	1,348,556	295,470
Total expenditures	7,181,909	6,484,949	696,960
Excess (Deficiency) of Revenues Over (Under) Expenditures	(198,053)	79,440	(277,493)
Other financing sources			
Insurance proceeds	-	42,611	(42,611)
Net Change in Fund Balance	$ (198,053)	122,051	$ 320,104
Fund Balance, Beginning of Year		881,317	
Fund Balance, End of Year		$ 1,003,368	

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The District Board is comprised of member school district superintendents, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. Generally accepted accounting principles require that the financial statements of the reporting entity include those of the Special Education District (the primary government) and its component units. A component unit would be included in the Special Education District's reporting entity because of the significance of their operational or financial relationship with the Special Education District. The criteria established by GASB Statement No. 14 in determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the school district to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Special Education District. The Special Education District has no component units as defined in GASB Statement No. 14 which should be included in the reporting entity.

Based on these criteria, there are no organizations considered to be component units of the District.

B. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

C. Fund Financial Statement Presentation

Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

- *Revenue Recognition* – Revenue is recognized when it becomes 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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Revenues from local sources consist primarily of table valuation assessments. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to the North Dakota Department of Public Instruction. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

- *Recording of Expenditures* – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Description of Funds

The District has only one fund which has been established by the North Dakota Department of Public Instruction. A description of the fund included in this report is as follows:

Major Governmental Fund

General Fund – The general fund is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

D. Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for the general fund on the same modified accrual basis used to reflect actual revenues and expenditures. The director is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less. 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 secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize local governments to invest in: a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, 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 of the type listed above, c) certificates of deposit fully insured by the federal deposit insurance corporation or the state, d) obligations of the state. Investments are stated at cost. The only investments held by the school district are certificates of deposit.

Receivables

All receivables are shown net of any allowance for uncollectible accounts. No allowances for uncollectible accounts have been recorded.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 10 to 50 years.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Compensated Absences

It is the District's policy to permit employees with over 10 years of experience to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from school district service.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation. The following are funds established by the State for risk management issues:

The District participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The District pays an annual premium to the State Fire and Tornado Fund to cover property damage to building 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 one million dollars per occurrence during a 12-month period. The State Bonding Fund does not currently charge any premium for this coverage.

The District 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 for the payment of claims to employees injured in the course of employment.

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.

Pensions

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

Deferred 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 element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The District has one item that qualifies for reporting in this category. Deferred outflows of resources related to pension plans consists of various estimate differences and contributions made to the plan subsequent to the measurement date that will be recognized as expenses in future years.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resource. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The District has one type of item that qualifies for reporting in this category. Deferred inflows related to pension activity as a result of various estimate differences that will be recognized as expense in future years, reported in the government-wide statement of net position.

Net Position

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

Fund Balance

The following are classifications of fund balance:

<u>Nonspendable Fund Balance</u> – Comprised of funds that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

<u>Restricted Fund Balances</u> – Comprised of funds that have legally enforceable constraints placed on the use of resources (other than nonspendable items) that are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

<u>Committed Fund Balance</u> – Comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the governing board and that remain binding unless removed by the governing board by subsequent formals action. The formal action to commit a fund balance must occur prior to the fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative amount.

Assigned Fund Balance – Comprised of unrestricted funds constrained by the District's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the District's intended use of those resources. The action to assign fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number.

Unassigned Fund Balance – Residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

The District did not adopt a fund balance policy as of June 30, 2022 therefore there are no committed or assigned fund balances.

Leases

The District is a lessee for a noncancellable lease of various printers and a postage machine. The District recognizes a lease liability and a right-to-use asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct lease costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases included how the District determines (1) the discount rate is uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease assets and liabilities if certain changes if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Estimates

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

Implementation of GASB Statement No. 87

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning right to use assets and lease liability is disclosed in Note 7 and the additional disclosures required by this standard is included in Note 4.

Note 2 - Deposits

In accordance with North Dakota statutes, the District maintains deposits at those depositories authorized by the Governing Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All school district funds were adequately insured or collateralized by government securities.

Credit Risk – this is the risk that the counterparty of an investment will not fulfill its obligations. The Center's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest Rate – this is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Center manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

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

At June 30, 2022, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2022 is as follows:

	Balance July 1, 2021 (as restated)	Additions	Deletions	Balance June 30, 2022
Capital Assets Being Depreciated/Amortized				
Buildings	$ 543,969	$ -	$ -	$ 543,969
Land Improvements	16,342	-	-	16,342
Equipment	11,664	-	-	11,664
Vehicles	139,165	78,898	-	218,063
Right-to-use leased equipment	15,954	-	-	15,954
Total capital assets being depreciated/amortized	727,094	78,898	-	805,992
Less Accumulated Depreciation/Amortization for				
Buildings	179,506	10,879	-	190,385
Land Improvements	7,004	2,334	-	9,338
Equipment	11,664	-	-	11,664
Vehicles	88,830	14,612	-	103,442
Right-to-use leased equipment	-	8,480	-	8,480
Total accumulated depreciation/amortization	287,004	36,305	-	323,309
Total capital assets, net	$ 440,090	$ 42,593	$ -	$ 482,683

Depreciation/amortization expense for the year ended June 30, 2022 was charged to the following functions/programs:

Depreciation/Amortization Expense - Instruction	$ 36,305

Note 4 - Leases

Leases Payable

During prior years, the District entered into lease agreements as lessee for the acquisition and use of various printers and a postage machine. An initial lease liability was recorded in the amount of $15,954 during the current fiscal year. As of June 30, 2022, the value of the lease liability was $7,548. The District is required to make monthly principal and interest payments of $721. The leases have an interest rate of 2.00%. The equipment has estimated useful lives ranging from one to four years. The value of the right-to-use assets as of the end of the current fiscal year was $15,954 and had accumulated amortization of $8,480.

During the fiscal year, the District recorded $242 in interest expense for the right to use the assets and $8,480 in amortization expense. The future principal and interest lease payments as of June 30, 2022, were as follows:

Years Ending June 30,	Principal	Interest
2023	$ 4,742	$ 91
2024	2,202	32
2025	604	5
	$ 7,548	$ 128

Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2022 are as follows:

	Balance July 01, 2021 (as restated)	Additions	Retirements	Balance June 30, 2022	Due within One Year
Lease Liabilities	$ 15,954	$ -	$ 8,406	$ 7,548	$ 4,742
Compensated Absences	74,400	8,800	18,025	65,175	65,175
	$ 90,354	$ 8,800	$ 26,431	$ 72,723	$ 69,917

Compensated Absences – This amount consists of compensated absences as described in Note 1.

See Note 4 for further information on the District's lease liabilities.

Note 6 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Fund for Retirement (TFFR) or the North Dakota Public Employees Retirement System (NDPERS), both of which are administered on a state-wide basis.

For the year ended June 30, 2022, the District reported its proportionate share of deferred outflows of resources, net pension liabilities, deferred inflows of resources, and pension expense for each of the plans as follows:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Pension Expense
NDPERS	$ 658,200	$ 461,750	$ 1,001,713	$ 45,145
TFFR	598,826	2,862,102	1,170,752	74,694
Total all plans	$ 1,257,026	$ 3,323,852	$ 2,172,465	$ 119,839

Disclosures relating to these plans are as follows:

North Dakota Teachers' Fund for Retirement (TFFR)

Plan Description

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

Member and Employer Contributions

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

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

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

At June 30, 2022, the District reported a liability of $2,862,102 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At June 30, 2021, the District’s proportion was .2716%, which was a decrease of .0137% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the District recognized pension expense of $74,694. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 19,885	$ 120,702
Changes in actuarial assumptions	100,530	-
Difference between projected and actual investment earnings	-	838,637
Change in proportion and differences between employer contributions and proportionate share of contributions	226,563	211,413
Employer contributions to TFFR subsequent to the measurement date	251,848	-
Total	$ 598,826	$ 1,170,752

The $251,848 reported as deferred outflows of resources related to pensions resulting from District contributions to the TFFR subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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

Years Ended June 30,	Pension Expense
2023	$ (207,475)
2024	(156,056)
2025	(179,211)
2026	(252,657)
2027	14,456
Thereafter	(42,831)

Actuarial Assumptions

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.30%
Salary increases	3.80% to 14.80%, varying by service, including inflation and productivity
Investment Rate of Return	7.25% net of investment expenses including inflation
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the PubT-2010 Employee table, projected with generational improvement using Scale MP-2019. For healthy retirees, mortality rates were based on 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019. For disability retirees, mortality rates were based on the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019.

The actuarial assumptions used were based on the results of an actuarial experience study dated March 19, 2020. They are the same as the assumptions used in the July 1, 2021, funding actuarial valuation for TFFR.

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of July 1, 2021, are summarized in the following table:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Global Equities	55%	6.90%
Global Fixed Income	26%	0.70%
Global Real Assets	18%	4.80%
Cash Equivalents	1%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability in was 7.25% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2021, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2021. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

Sensitivity of the Cooperative's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the TFFR employers calculated using the discount rate of 7.25%, as of June 30, 2021, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TFFR discount rate	6.25%	7.25%	8.25%
District's proportionate share of the TFFR net pension liability	$ 4,297,553	$ 2,862,102	$ 1,670,106

A. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report is located at https://www.rio.nd.gov/sites/www/files/documents/PDFs/RIO/Reports/annualreport2021.pdf.

North Dakota Public Employees Retirement System (NDPERS)

Plan Description

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25, and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

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

At June 30, 2022, the District reported a liability of $461,750 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2021, the District's proportion was 0.0443 percent, which was an increase of .0069 percent from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the District recognized pension expense of $45,145. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 7,974	$ 47,128
Changes in actuarial assumptions	511,067	666,325
Difference between projected and actual investment earnings	-	171,256
Change in proportion and differences between employer contributions and proportionate share of contributions	95,985	117,004
Employer contributions to NDPERS subsequent to the measurement date	43,174	-
Total	$ 658,200	$ 1,001,713

The $43,174 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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

Years Ended June 30,	Pension Expense
2023	$ (75,252)
2024	(98,291)
2025	(65,546)
2026	(147,598)

Actuarial Assumptions

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.50% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Equities	30%	6.00%
International Equities	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
Global Real Assets	19%	4.77%
Cash Equivalents	0%	0.00%
	100%	

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00%.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one-percentage-point lower (6.00 percent) or one-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
NDPERS discount rate	6.00%	7.00%	8.00%
District's proportionate share of the NDPERS net pension liability	$ 734,337	$ 461,750	$ 234,778

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained on the internet at www.nd.gov/ndpers, or by writing to NDPERS at PO Box 1657, Bismarck, ND 58502.

Note 7 - Adoption of New Standard

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Governmental Activities
Net position at June 30, 2021, as previously reported	$ (3,180,349)
Add right-to-use assets under GASB Statement No. 87 at July 1, 2021	15,954
Add lease liability under GASB Statement No. 87 at July 1, 2021	(15,954)
Net position at July 1, 2021, as adjusted	$ (3,180,349)

Note 8 - Commitments and Contingencies

Federal and State Revenue

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

Contingencies

The District does not have any knowledge of legal claims pending at year-end. The possibility exists that there could be possible claims that the District is currently not aware as of June 30, 2022. In either case the District believes the resolution of these matters will not have a material adverse effect on its financial statements.

Required Supplementary Information
June 30, 2022

Lake Region Special Education District

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years*

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
NDPERS	6/30/2021	0.0443%	$ 461,750	$ 501,661	92.0%	79.1%
NDPERS	6/30/2020	0.0374%	1,177,115	412,747	285.2%	71.7%
NDPERS	6/30/2019	0.0469%	549,491	487,651	112.7%	71.7%
NDPERS	6/30/2018	0.0506%	909,064	553,384	164.3%	63.5%
NDPERS	6/30/2017	0.0580%	931,993	591,929	157.5%	62.7%
NDPERS	6/30/2016	0.0601%	585,372	571,194	102.5%	71.1%
TFFR	6/30/2021	0.2716%	$ 2,862,102	$ 2,093,494	136.7%	75.7%
TFFR	6/30/2020	0.2853%	4,365,922	2,081,434	209.8%	63.4%
TFFR	6/30/2019	0.2729%	3,759,552	1,914,995	196.3%	65.5%
TFFR	6/30/2018	0.2674%	3,564,064	1,817,811	196.1%	59.5%
TFFR	6/30/2017	0.2552%	3,505,265	1,722,540	203.5%	63.2%
TFFR	6/30/2016	0.2580%	3,779,343	1,676,065	225.5%	59.2%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Contributions
Last 10 Fiscal Years*

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
NDPERS	6/30/2022	$ 43,173	$ 43,173	$ -	$ 598,607	7.21%
NDPERS	6/30/2021	36,995	35,862	1,133	501,661	7.15%
NDPERS	6/30/2020	29,226	34,173	(4,947)	412,747	8.28%
NDPERS	6/30/2019	35,504	35,671	(167)	487,651	7.31%
NDPERS	6/30/2018	40,759	39,993	766	553,384	7.23%
NDPERS	6/30/2017	42,922	42,144	778	591,929	7.12%
TFFR	6/30/2022	$ 251,848	$ 251,848	$ -	$ 1,975,278	12.75%
TFFR	6/30/2021	266,920	266,920	-	2,093,494	12.75%
TFFR	6/30/2020	265,383	265,383	-	2,081,434	12.75%
TFFR	6/30/2019	244,162	244,162	-	1,914,995	12.75%
TFFR	6/30/2018	231,771	231,771	-	1,817,811	12.75%
TFFR	6/30/2017	219,624	219,624	-	1,722,540	12.75%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of District's Share of Net Pension Liability and Schedule of District's Contributions

NDPERS

Changes of benefit terms
The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020, will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019, or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions
All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

TFFR

Changes of assumptions
Amounts reported in 2021 and later reflect the following actuarial assumption changes based on the results of an actuarial experience study dated March 19, 2020.

- Investment return assumption lowered from 7.75% to 7.25%
- Inflation assumption lowered from 2.75% to 2.30%
- Individual salary increases were lowered
- Rates of turnover, retirement and disability were changed to better reflect anticipated future experience;
- The post-retirement healthy mortality table was updated to 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019
- The disabled mortality was updated to the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019
- The pre-retirement mortality table was updated to the PubT-2010 Employee table projected with generational improvement using Scale MP-2019

Amounts reported in 2016-2020 reflect the following actuarial assumption changes based on the results of an actuarial experience study dated April 30, 2015.

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

Individual Fund Schedules
June 30, 2022

Lake Region Special Education District

	Original & Final Budget	Actual	Variance with Final Budget
Other Local Sources			
District assessments	$ 416,000	$ 430,871	$ 14,871
Other local revenues	82,400	88,391	5,991
	498,400	519,262	20,862
Federal Sources			
Grants-In-Aid: Restricted			
Received through DPI	1,747,209	1,414,901	(332,308)
Medicaid	200,000	219,134	19,134
	1,947,209	1,634,035	(313,174)
State Sources			
Grants-In-Aid: Unrestricted	3,734,114	3,595,185	(138,929)
Interdistrict Sources			
School districts	804,133	815,907	11,774
Total revenues	$ 6,983,856	$ 6,564,389	$ (419,467)

	Original & Final Budget	Actual	Variance with Final Budget
Administration			
Salaries and wages	$ 208,555	$ 210,587	$ (2,032)
Employee benefits	126,764	120,474	6,290
Purchased services	39,000	47,003	(8,003)
Supplies, materials and travel	95,750	78,728	17,022
Other expenditures	3,500	4,068	(568)
	473,569	460,860	12,709
Special Education Instruction			
Salaries and wages	319,905	322,000	(2,095)
Employee benefits	127,368	127,172	196
Purchased services	740,974	668,147	72,827
Supplies, materials and travel	248,600	323,835	(75,235)
Other expenditures	45,722	17,007	28,715
	1,482,569	1,458,161	24,408
Preschool Instruction			
Salaries and wages	123,096	123,096	-
Employee benefits	60,801	59,571	1,230
Supplies, materials and travel	222,700	222,760	(60)
	406,597	405,427	1,170
Mentally Handicapped Instruction			
Salaries and wages	89,254	89,194	60
Employee benefits	45,926	45,267	659
Supplies, materials and travel	235,200	235,402	(202)
	370,380	369,863	517
Speech Therapy			
Salaries and wages	577,959	528,489	49,470
Employee benefits	305,433	282,059	23,374
Purchased services	66,030	62,308	3,722
Supplies and materials	50,066	7,300	42,766
	999,488	880,156	119,332
Emotionally Disturbed			
Supplies, materials and travel	128,000	128,000	-
Learning Disabilities			
Salaries and wages	736,394	672,133	64,261
Employee benefits	384,786	334,392	50,394
Supplies, materials and travel	12,100	3,588	8,512
	1,133,280	1,010,113	123,167

	Original & Final Budget	Actual	Variance with Final Budget
Student Contracts			
Supplies, materials and travel	500,000	420,049	79,951
Education-State			
Discretionary grant	44,000	3,764	40,236
Education -Federal			
Salaries and wages	864,051	838,048	26,003
Employee benefits	425,556	189,797	235,759
Purchased services	148,951	148,951	-
Supplies, materials and travel	205,468	171,760	33,708
	1,644,026	1,348,556	295,470
Total expenditures	$ 7,181,909	$ 6,484,949	$ 696,960

Other Supplementary Information
June 30, 2022

Lake Region Special Education District

Federal Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	
Department of Education				
Passed through the North Dakota				
Department of Public Instruction				
Special Education Cluster				
Special Education Grants to States	84.027	01-091	$ 1,228,232	
Special Education Grants to States	84.027	01-114	57,073	
Special Education Preschool Grants	84.173	01-093	40,055	
Total Special Education Cluster				$ 1,325,360
Title 1 Grants to Local Educational Agencies	84.010	01-069		80,269
COVID-19 Education Stabilization Fund	84.425	01-000		9,275
Total Federal Financial Assistance				$ 1,414,904

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, or changes in net position or fund balance of the District.

Note 2 - Significant Accounting Policies

Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The District has not elected to use the 10% de minimis cost rate.

Additional Reports
June 30, 2022

Lake Region Special Education District

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board
Lake Region Special Education District
Devils Lake, North 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 the major fund of Lake Region Special Education District ("the District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001, 2022-002, and 2022-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Eide Bailly LLP

Fargo, North Dakota
March 6, 2023

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Members of the Governing Board
Lake Region Special Education District
Devils Lake, North Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Lake Region Special Education District's (the District) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2022. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Eide Bailly LLP

Fargo, North Dakota
March 6, 2023

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Special Education Cluster	84.027, 84.173

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

Section II – Financial Statement Findings

2022-001 Segregation of Duties
Material Weakness

Condition – The District does not have enough staff to adequately separate duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation. This is a repeat finding.

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

Cause – There is a limited amount of office employees involved in the internal control process.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

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

View of Responsible Officials – There is no disagreement with the audit finding.

2022-002 Preparation of Financial Statements and Schedule of Expenditures of Federal Awards Material Weakness

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, and related schedule of expenditures of federal awards. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements, and the schedule of expenditures of federal awards. This is a repeat finding.

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements and schedule of expenditures of federal awards.

Cause – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited and the related schedule of expenditures of federal awards.

Effect – The disclosures in the financial statements could be incomplete.

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

View of Responsible Officials – There is no disagreement with the audit finding.

2022-003 Material Audit Adjustments
Material Weakness

Condition – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements. This is a repeat finding.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect – This deficiency resulted in a material misstatement to the financial statements that was not prevented or detected.

Cause – The District does not have an internal control system designed to identify all necessary adjustments.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

View of responsible officials – There is no disagreement with the finding.

Section III – Federal Award Findings and Questioned Costs

2022-004 **Department of Education, Passed through North Dakota Department of Public Instruction**
Federal Financial Assistance Listing/CFDA Number 84.027/84.173
Special Education Cluster

Procurement, Suspension, and Debarment
Material Weakness in Internal Control over Compliance

Criteria – Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required.

Condition – In our testing of procurement, suspension and debarment it was identified that the District did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

Cause – Lack of oversight, awareness, or understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections and controls were not adequately designed to ensure compliance with all of these requirements.

Effect – A lack of documented policies increase the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts to lower tier entities.

Questioned Costs – None reported

Context/Sampling – Overall procurement policy.

Repeat Finding from Prior Years – No

Recommendation – We recommend that management establish a written policy that addresses all of the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

Views of Responsible Officials – There is no disagreement with the audit finding.

LAKE REGION SPECIAL EDUCATION

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Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan
June 30, 2022

Prepared by Management of

Lake Region Special Education District

Summary Schedule of Prior Audit Findings

Finding 2021-001 Segregation of Duties

Initial Fiscal Year Finding Occurred: 2016

Finding Summary: Eide Bailly LLP notes there are a limited number of positions within the District which prevents a proper segregation of duties.

Status: Ongoing. The District does not find it to be cost effective to hire additional staff.

Finding 2021-002 Preparation of Financial Statements and Schedule of Expenditures and Federal Awards

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: Eide Bailly LLP prepared ow- draft financial statements and accompanying notes to the financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Finding 2021-003 Material Audit Adjustments

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: Eide Bailly proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls.

Status: Ongoing. Material journal entries were again proposed by Eide Bailly LLP

Finding 2022-001 **Segregation of Duties**
Material Weakness

Finding Summary: The District has a limited number of personnel preventing adequate segregation of duties.

Responsible Individuals: Rhandi Knutson, Director

Corrective Action Plan: The District feels that the costs for hiring additional staff would not be significantly beneficial. The District does currently mitigate this situation by the approval of all checks by action of the Board. The District will continue to look for further opportunities to segregate duties.

Anticipated Completion Date: Ongoing

Finding 2022-002 **Preparation of Financial Statements and Schedule of Expenditures of Federal Awards**
Material Weakness

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements, and related schedule of expenditures of federal awards.

Responsible Individuals: Rhandi Knutson, Director

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes, and related schedule of expenditures of federal awards. We requested that our auditors, Eide Bailly LLP, prepared the financial statements and the accompanying notes to the financial statements, and related schedule of expenditures of federal awards as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and related schedule of expenditures of federal awards.

Anticipated Completion Date: Ongoing

Finding 2022-003 Material Audit Adjustments
Material Weakness

Finding Summary: During the course of the engagement, material audit adjustments were proposed by Eide Bailly LLP. These would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Rhandi Knutson, Director

Corrective Action Plan: The District will work with the auditors to better understand the entries being made each year and will make an attempt to have the entries made prior to future audits being performed. The District does mitigate this situation through the Board's review of the draft financial statements, accompanying notes and review and approval of the monthly expenses.

Anticipated Completion Date: Ongoing

Finding 2022-004 Procurement, Suspension, and Debarment
Material Weakness in Internal Control over Compliance

Finding Summary: During the course of the engagement, Eide Bailly identified that the District did not have a procurement policy in compliance with Uniform Guidance.

Responsible Individuals: Rhandi Knutson, Director

Corrective Action Plan: A procurement policy in compliance with Uniform Guidance will be approved and implemented.

Anticipated Completion Date: June 30, 2023