UPPER VALLEY SPECIAL EDUCATION DISTRICT
GRAFTON, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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UPPER VALLEY SPECIAL EDUCATION DISTRICT
ROSTER OF SCHOOL OFFICIALS - UNAUDITED
AT JUNE 30, 2022

Jeff Manley	President
Jill Olson	Vice President
Aaron Schramm	Board Member
Linda Lutovsky	Board Member
Darren Albrecht	Board Member
Steve Swiontek	Board Member
Jason Keating	Board Member
Renae Grinde	Business Manager
Dan Juve	Director

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities and the major fund of the Upper Valley Special Education District, as of and for the year ended June 30, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Upper Valley Special Education District, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Upper Valley Special Education District, and to meet our 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.

Emphasis of Matter

Prior Period Adjustment

As described in Note 11 to the financial statements, a prior period adjustment has been made to adjust the beginning net position. Our opinion is 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 Upper Valley Special Education 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 generally accepted auditing standards 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 Upper Valley Special Education 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Upper Valley Special Education 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, schedule of the District's Contributions to the TFFR Pension Plan, schedule of District's proportionate share of net pension liability, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information 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 accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles,* and *Audit Requirements for Federal Awards,* and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of school officials 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 basic 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 January 22, 2025 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.

Brady Martz

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

January 22, 2025

The discussion and analysis of Upper Valley Special Education District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2022. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2022 are as follows:

- Net position of the District increased $279,102 as a result of the current year's operations.
- Total revenues from all sources were $6,327,286.
- Total expenses were $6,048,184.
- Overall, the general fund balance decreased by $3,055 for the year ended June 30, 2022, compared to a decrease of $142,469 in the previous year.

Using this Annual Report

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The view of the District as a whole looks at all financial transactions and asks the question, "How did the District do financially during the year ended June 30, 2022?" The statement of net position and the statement of activities answers this question. These statements include all assets, deferred inflows of resources, deferred outflows of resources, and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Financial Analysis of the District as a Whole

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

Table 1 provides a summary of the District's net position as of June 30, 2022 and 2021.

As indicated in the financial highlights, the District's net position increased by $279,102 as a result of current year operations. Net position may serve over time as a useful indicator of the District's financial position.

The District's net position of $(3,645,569) is segregated into two separate categories. Net investment in capital assets represents $45,480 of the District's entire net position. It should be noted that these assets are not available for future spending. The remaining unrestricted net position represents $(3,691,049) of the District's net position. The unrestricted net position is available to meet the District's ongoing obligations and is a deficit due to the net pension liability.

Table 1
Net Position

		As Restated
ASSETS	**2022**	**2021**
Current Assets	$ 1,684,696	$ 1,467,238
Capital Assets (Net of Accumulated Depreciation)	45,480	31,819
TOTAL ASSETS	1,730,176	1,499,057
DEFERRED OUTFLOWS OF RESOURCES	573,622	1,042,115
LIABILITIES		
Current Liabilities	660,815	440,302
Long-Term Liabilities	3,652,996	5,549,261
TOTAL LIABILITIES	4,313,811	5,989,563
DEFERRED INFLOWS OF RESOURCES	1,635,556	476,280
NET POSITION		
Net Investment in Capital Assets	45,480	31,819
Unrestricted	(3,691,049)	(3,956,490)
TOTAL NET POSITION	$ (3,645,569)	$ (3,924,671)

Table 2 shows the changes in net position for fiscal years ended June 30, 2022 and 2021.

Table 2
Changes in Net Position

	2022	As Restated 2021
REVENUES		
Program Revenues:		
Charges for Services	$ 2,625,156	$ 2,456,304
Operating Grants and Contributions	3,675,364	3,796,725
General Revenues:		
Investment Income	97	1,557
Other Revenues	26,669	24,294
TOTAL REVENUES	6,327,286	6,278,880
EXPENSES		
Instruction	5,601,836	6,258,354
Support Services:		
General Administration Services	446,348	426,387
TOTAL EXPENSES	6,048,184	6,684,741
INCREASE (DECREASE) IN NET POSITION	279,102	(405,861)
NET POSITION - BEGINNING OF YEAR	(3,924,671)	(3,518,810)
NET POSITION - END OF YEAR	$ (3,645,569)	$ (3,924,671)

Operating grants and contributions constituted 58%, and charges for services made up 41% of the total revenues of governmental activities of the District for fiscal year 2022.

Instruction comprises 93% of District expenses.

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

Table 3
Cost of Services

	Total Cost for Year Ended 6/30/2022	Net Cost for Year Ended 6/30/2022	Total Cost for Year Ended 6/30/2021	Net Cost for Year Ended 6/30/2021
Instruction	$ 5,601,836	$ 698,684	$ 6,224,536	$ 28,493
Support Services:				
General Administration Services	446,348	(446,348)	426,387	(426,387)
Total Expenses	$ 6,048,184	$ 252,336	$ 6,650,923	$ (397,894)

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

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

General Fund Budgeting Highlights

During the course of the 2022 fiscal year, the District received $348,263 less revenues and incurred $787,826 less expenditures than budgeted. This is primarily the result of less state and federal revenue received during the year as well as less purchased services and supplies expenditures incurred than anticipated during the budgeting process.

Capital Assets

As of June 30, 2022, the District had $45,480 invested in capital assets. See Note 6 for additional information. Table 4 shows balances as of June 30, 2022 and 2021.

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

	2022	2021
Equipment	$ 39,299	$ 22,735
Office Furniture	6,181	9,084
	$ 45,480	$ 31,819

Debt Administration

As of June 30, 2022, the District has $3,652,996 in long-term liabilities, with none due within one year. See Note 7 for details. See below for a description of the District's long-term liabilities:

	Balance 07/01/21	Additions	Retirement	Balance 06/30/22	Amount Due in One Year
Compensated Absences	9,343	412	-	9,755	-

For the Future

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

Contacting the District's Financial Management

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

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 767,622
Accounts Receivable	917,074
Total Current Assets	1,684,696
Non-current Assets:	
Capital Assets	180,064
Less Accumulated Depreciation	(134,584)
Total Non-current Assets	45,480
TOTAL ASSETS	1,730,176
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	573,622
TOTAL DEFERRED OUTFLOWS OF RESOURCES	573,622
LIABILITIES	
Current Liabilities:	
Accounts Payable	133,359
Accrued Payroll Liabilities	200,734
Salaries Payable	326,722
Total Current Liabilities	660,815
Long-Term Liabilities:	
Compensated Absences	9,755
Net Pension Liability	3,643,241
Total Non-Current Liabilities	3,652,996
TOTAL LIABILITIES	4,313,811
DEFERRED INFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan - TFFR	1,635,556
TOTAL DEFERRED INFLOWS OF RESOURCES	1,635,556
NET POSITION	
Net Investment in Capital Assets	45,480
Unrestricted	(3,691,049)
TOTAL NET POSITION	$ (3,645,569)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction:				
Special Education	$ 5,601,836	$ 2,625,156	$ 3,675,364	$ 698,684
Total Instruction	5,601,836	2,625,156	3,675,364	698,684
Support Services:				
General Administration Services	446,348	-	-	(446,348)
Total Support Services	446,348	-	-	(446,348)
Total Governmental Activities	$ 6,048,184	$ 2,625,156	$ 3,675,364	252,336
General Revenues:				
Investment Income				97
Other Revenues				26,669
Total General Revenues				26,766
Change in Net Position				279,102
Net Position - Beginning of Year				(3,958,489)
Prior Period Adjustment - See Note 11				33,818
Net Position - Beginning as Restated				(3,924,671)
Net Position - End of Year				$ (3,645,569)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2022

ASSETS		General Fund
Cash and Cash Equivalents	$	767,622
Accounts Receivable		917,074
TOTAL ASSETS	$	1,684,696
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$	133,359
Accrued Payroll Liabilities		200,734
Salaries Payable		326,722
TOTAL LIABILITIES		660,815
FUND BALANCE		
Unassigned		1,023,881
TOTAL FUND BALANCE		1,023,881
TOTAL LIABILITIES AND FUND BALANCES	$	1,684,696

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total Fund Balance - Governmental Funds		$ 1,023,881
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.		
Cost	$ 180,064	
Accumulated Depreciation	(134,584)	
Net		45,480
Net deferred outflows (inflows) of resources relating to the cost sharing defined benefit plan in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.		(1,061,934)
Long-term liabilities are not due and payable in the current period and therefore are not recorded as liabilities in the governmental funds.		
Net Pension Liability	$(3,643,241)	
Compensated Absences	(9,755)	
		(3,652,996)
Total Net Position- Governmental Activities		$(3,645,569)

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
REVENUES	
Local	$ 2,651,922
State	2,758,081
Federal	917,283
TOTAL REVENUE	6,327,286
EXPENDITURES	
CURRENT:	
Salaries	3,365,068
Employee Benefits	932,849
Purchased Services	1,907,233
Supplies	67,005
Other Objects	34,962
CAPITAL OUTLAY:	
Equipment	23,224
TOTAL EXPENDITURES	6,330,341
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,055)
FUND BALANCE - BEGINNING OF YEAR	993,118
PRIOR PERIOD ADJUSTMENT - SEE NOTE 11	33,818
NET POSITION - BEGINNING AS RESTATED	1,026,936
FUND BALANCE - END OF YEAR	$ 1,023,881

See Notes to the Basic Financial Statements

UPPER VALLEY SPECIAL EDUCATION DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Total Net Change in Fund Balances - Government Funds		$ (3,055)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	$ 23,224	
Depreciation Expense	(9,563)	13,661
Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. This consisted of the (increase)/decrease in:		
Compensated Absences		(412)
Changes in deferred outflows and inflows of resources related to net pension liability		(1,627,769)
Changes in Net Pension Liability		1,896,677
Change in Net Position - Governmental Activities		$ 279,102

See Notes to the Basic Financial Statements

NOTE 1 DESCRIPTION OF THE DISTRICT REPORTING ENTITY

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

Fund Accounting

The District's funds consist of the following:

Governmental Funds:

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

General Fund:

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

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

Basis of Accounting:

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

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

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

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

Revenues- Exchange and Non-Exchange Transactions:

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

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

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

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

Expenses and Expenditures:

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

Cash and Cash Equivalents:

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

Leases:

The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.
The District’s lease agreements do not include any material residual value guarantees or restrictive covenants.

Fair Value Measurements:

The District accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Capital Assets:

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District’s fiscal year. The District has established a capitalization threshold of $1,000.

Donated fixed assets are recorded at their acquisition value at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

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

Equipment	5-7 Years
Office Furniture	7 Years

Compensated Absences:

Employees who have been employed by the District for a minimum of 10 years are eligible for sick leave pay for a maximum of 90 days at $15 per day with a maximum payout of $1,350. As of June 30, 2022, there are 12 employees eligible for sick leave pay. A corresponding liability, which includes applicable payroll taxes, has been set up as a long-term liability.

Accrued Liabilities and Long-term Obligations:

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

Pensions:

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

Fund Balance Classifications:

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

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

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

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

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

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

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

The District will strive to maintain a minimum unassigned general fund balance of not less than 10 percent and not more than 25 percent of the annual budget, with an optimal balance of 15 percent.

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.

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

Deferred Outflows/Inflows of Resources:

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

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

Estimates:

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

Significant Group Concentrations of Credit Risk:

As of June 30, 2022, the District's receivables consist of amounts due from other governmental units within the State of North Dakota.

NOTE 3 CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits

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

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

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

At June 30, 2022, the carrying amount of the District's deposits was $767,622 and the bank balance was $1,043,807. The entire bank balance was covered by Federal Depository Insurance or by collateral held by the District's Agent in the District's name in amounts sufficient to meet North Dakota legal requirements.

Custodial Credit Risk – Investments

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

1. 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 districts created by an act of Congress.

2. 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.

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

4. Obligations of the state.

NOTE 4 ACCOUNTS RECEIVABLE

The District's accounts receivable as of June 30, 2022 are as follows:

	2022
State of North Dakota	$ 862,465
Student Tuition	54,609
Total	$ 917,074

NOTE 5 RELATED PARTY TRANSACTIONS

The District was organized to enlarge and enrich the learning opportunities in special education and related areas of education for eligible residents of the District's member Districts. The following amounts were received from and paid to member Districts for the year ended June 30, 2022:

Received from Member Districts	$ 3,394,454
Paid to Member Districts	128,378

NOTE 6 CAPITAL ASSETS

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

	Balance 7/1/2021	Additions	Disposals	Balance 6/30/2022
Governmental Activities				
Equipment	$ 100,609	$ 23,224	$ -	$ 123,833
Office Furniture	56,231	-	-	56,231
Total	156,840	23,224	-	180,064
Less Accumulated Depreciation				
Equipment	77,874	6,660	-	84,534
Office Furniture	47,147	2,903	-	50,050
Total	125,021	9,563	-	134,584
Net Capital Assets for Governmental Activities	$ 31,819	$ 13,661	$ -	$ 45,480

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 6,660
General Administration Services	2,903
Total	$ 9,563

NOTE 7 LONG-TERM LIABILITIES

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

	Balance 07/01/21	Additions	Retirement	Balance 06/30/22	Amount Due in One Year
Compensated Absences	9,343	412	-	9,755	-

Compensated absences are generally liquidated by the general fund.

NOTE 8 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to the plan follow:

North Dakota Teacher's Fund For Retirement

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

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

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

Pension Benefits

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

Tier 1 Grandfathered

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

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

Tier 1 Non-grandfathered

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

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

Tier 2

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

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

Death and Disability Benefits

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

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

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 $3,643,241 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2021, the Employer's proportion was 0.345772 percent which was a decrease of 0.016195 from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Employer recognized pension expense of $90,072. At June 30, 2022, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 25,312	$ 153,645
Changes in actuarial assumptions	127,968	-
Difference between projected and actual investment earnings	-	1,067,522
Changes in proportion	61,352	414,389
Contributions paid to TFFR subsequent to the measurement date	358,990	-
Total	$ 573,622	$ 1,635,556

$358,990 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

Year ending June 30:	Pension Expense Amount
2023	$ (316,044)
2024	(282,100)
2025	(335,945)
2026	(409,641)
2027	(26,760)
Thereafter	(50,434)

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	2.30%
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 TFFR 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 Allocation	Long-Term Expected Real Rate of Return
Global Equities	55.00%	6.90%
Global Fixed Income	26.00%	0.70%
Global Real Assets	18.00%	4.80%
Cash Equivalents	1.00%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability 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 TFFR'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 TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 7.25 percent 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 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.25%	7.25%	8.25%
District's proportionate share of the TFFR net pension liability:	$ 5,470,462	$ 3,643,241	$ 2,125,920

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 Annual Comprehensive Financial Report (ACFR) is located at
https://www.rio.nd.gov/sites/www/files/documents/PDFs/RIO/Reports/annualreport2021.pdf.

NOTE 9 RISK MANAGEMENT

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

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

The District also participates in the State Bonding Fund. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of $1,534,587 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 10 CONTINGENT LIABILITIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2022, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 11 PRIOR PERIOD ADJUSTMENTS

The District recorded a prior period adjustment to the financial statements to correct an overstatement of health insurance payables as of June 30, 2021. This increased net position by $33,818 for the year ended June 30, 2021.

NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this

Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, Omnibus 2022, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statement.

- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 102, *Certain Risk Disclosures*, requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the District's financial statements.

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through January 22, 2025, which is the date these financial statements were available to be issued.

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

Teachers Fund for Retirement

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2022	$ 358,990	$ (358,990)	-	$ 2,815,612	12.75%
2021	339,770	(339,770)	-	2,664,861	12.75%
2020	336,745	(336,745)	-	2,641,132	12.75%
2019	331,559	(331,559)	-	2,600,460	12.75%
2018	335,200	(335,200)	-	2,629,016	12.75%
2017	328,870	(328,870)	-	2,579,370	12.75%
2016	307,907	(307,907)	-	2,414,953	12.75%
2015	295,828	(295,828)	-	2,320,219	12.75%

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

See Notes to the Required Supplementary Information

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

Teachers Fund for Retirement

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability
2022	0.345772%	$ 3,643,241	$ 2,664,861	136.71%	75.70%
2021	0.361977%	5,539,918	2,664,861	207.89%	63.40%
2020	0.370685%	5,105,268	2,641,132	193.30%	65.50%
2019	0.386728%	5,154,540	2,629,016	196.06%	65.50%
2018	0.382145%	5,248,861	2,579,370	203.49%	63.20%
2017	0.371689%	5,445,455	2,414,953	225.49%	59.20%
2016	0.377207%	4,933,321	2,320,219	212.62%	62.10%
2015	0.363934%	3,813,383	2,111,013	180.64%	66.60%

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

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

See Notes to the Required Supplementary Information

UPPER VALLEY SPECIAL EDUCATION DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	2022		
	Original/Final Budget	Actual	Variance More (Less)
REVENUES			
Local	$ 2,727,605	$ 2,651,922	$ (75,683)
State	2,914,188	2,758,081	(156,107)
Federal	1,033,756	917,283	(116,473)
TOTAL REVENUE	6,675,549	6,327,286	(348,263)
EXPENDITURES			
Salaries	3,446,443	3,365,068	(81,375)
Employee Benefits	1,015,270	932,849	(82,421)
Purchased Services	2,340,890	1,907,233	(433,657)
Supplies	262,100	67,005	(195,095)
Equipment	31,364	23,224	(8,140)
Other Objects	22,100	34,962	12,862
TOTAL EXPENDITURES	7,118,167	6,330,341	(787,826)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(442,618)	(3,055)	439,563
FUND BALANCE - BEGINNING OF YEAR	993,118	993,118	-
PRIOR PERIOD ADJUSTMENT - SEE NOTE 12	-	33,818	33,818
NET POSITION - BEGINNING AS RESTATED	993,118	1,026,936	33,818
FUND BALANCE - END OF YEAR	$ 550,500	$ 1,023,881	$ 439,563

See Notes to the Required Supplementary Information

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

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

1. The administration prepares the District's budget. The budget includes proposed expenditures and the means of financing them. The budget is prepared on the modified accrual basis of accounting.
2. The Board reviews the budget, may make revisions, and adopts the final budget on or before August 15 of each year. The budget is then filed with the county auditor by August 25 of each year.
3. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amounts shown in the financial statements are the final authorized amounts.
4. All appropriations lapse at the close of the District’s fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

NOTE 2 CHANGES OF ASSUMPTIONS

TFFR

Amounts reported in 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; and
- 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 8.00% to 7.75%.
- Inflation assumption lowered from 3.00% 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.

BradyMartz

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Upper Valley Special Education District's basic financial statements and have issued our report thereon dated January 22, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-002, and 2022-003 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Valley Special Education District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.*

The District's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Upper Valley Special Education District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

Brady Martz

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

January 22, 2025

BradyMartz

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Upper Valley Special Education District's 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 Upper Valley Special Education District's major federal program for the year ended June 30, 2022. The Upper Valley Special Education District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Upper Valley Special Education 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 each major federal program. Our audit does not provide a legal determination of Upper Valley Special Education 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 Upper Valley Special Education 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 Upper Valley Special Education 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 generally accepted auditing standards, *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 Upper Valley Special Education District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Upper Valley Special Education 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 Upper Valley Special Education 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 Upper Valley Special Education 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.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-004. Our opinion on each major program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Upper Valley Special Education District's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Upper Valley Special Education 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.

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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a significant deficiency.

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 Upper Valley Special Education District's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Upper Valley Special Education 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.

Brady Martz

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

January 22, 2025

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor	Federal AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
US Department of Education			
Passed through North Dakota Department of Public Instruction:			
Special Education Cluster			
Special Education Grants to States	84.027	F84027A	$ 862,623
Special Education Preschool Grants	84.173	F84173	43,160
Total Special Education Cluster			905,783
Other Programs			
COVID 19 Education Stabilization Fund	84.425D	F84425D	11,500
Total Expenditures of Federal Awards			$ 917,283

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to requirement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 INDIRECT COST RATE

Upper Valley Special Education District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

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

NOTE 4 PASS-THROUGH ENTITIES

All pass-through entities listed above use the same AL numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

UPPER VALLEY SPECIAL EDUCATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes __x__ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__x__ Yes _____ None Reported
Non-compliance material to financial statements noted?	_____ Yes __x__ No

Federal Awards

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

Identification of major programs:

AL Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster

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

Section II-Financial Statement Findings

2022-001 Finding

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the District currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding

This is a repeat finding of 2021-001

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials

See corrective action plan.

2022-002 Finding

Criteria

A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.

Cause

The District is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of internal control over financial reporting could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Repeat Finding

This is a repeat finding of 2021-002

Recommendation

We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials

See corrective action plan.

2022-003 Finding

Criteria

The District is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The District's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The District's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Repeat Finding

This is not a repeat finding

Recommendation

We recommend accounting personnel obtain training to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials

See corrective action plan.

Section III-Federal Award Findings and Questioned Costs

2022-004 – Procurement, Suspension, and Debarment

Federal Program Information

Funding Agency:	US Department of Education
Title:	Special Education Cluster
AL Number:	84.027; 84.173

Criteria

Non-federal entities other than states, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR Part 200. Furthermore, Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction that are expected to equal or exceed $25,000.

Condition

Upper Valley Special Education District does not have a written procurement policy in place that follows Uniform Guidance. In addition, the District is not reviewing applicable vendors for suspension and debarment.

Questioned Costs

None.

Context

During inquiry and testing we noted that Upper Valley Special Education District did not have a procurement policy in place that follows Uniform Guidance and that they do not ensure vendors are not suspended or debarred from receiving federal funds.

Effect

Upper Valley Special Education District is not in compliance with Uniform Guidance procurement, suspension, and procurement requirements. Also, the District has an increased risk of entering into a covered transaction with a vendor who is suspended or debarred from receiving federal funds.

Cause

Management oversight.

Recommendation

The District’s should create and implement a procurement policy that follows federal requirements. The District should also create policies and procedures to ensure they do not enter into a covered transaction with a vendor who is suspended or debarred from receiving federal funds.

Repeat Finding

This is not a repeat finding.

Views of Responsible Officials

See corrective action plan.

2021-001 Finding

Criteria

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

Condition

The District's auditors prepared the financial statements as of June 30, 2021. In addition, adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). An appropriate system of internal controls requires that a District must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the District's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Cause

The District does not have the resources to prepare full accrual financial statements.

Effect

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

Recommendation

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

Management's Response

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

CURRENT YEAR STATUS:

See 2022-001

2021-002 Finding

Criteria

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

Condition

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

Cause

There is only one business manager and due to the District's size, they are unable to hire additional staff.

Effect

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

Recommendation

The District should separate the duties when it becomes feasible.

Management's Response

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

CURRENT YEAR STATUS:

See 2022-002

UPPER VALLEY SPECIAL EDUCATION
P.O. Box 272
516 Cooper Ave.
Grafton, ND 58237
Phone: (701) 352-2574 Fax: (701) 352-0188

CORRECTIVE ACTION PLAN
JUNE 30, 2022

2022-001

Contact Person
Dan Juve

Planned Corrective Action
The District will implement when it becomes cost-effective.

Planned Completion Date
The planned completion date for the CAP is when it becomes cost-effective.

2022-002

Contact Person
Dan Juve

Planned Corrective Action
The District will implement when it becomes cost-effective.

Planned Completion Date
The planned completion date for the CAP is when it becomes cost-effective.

2022-003

Contact Person
Dan Juve

Planned Corrective Action
The District will implement the recommendation from Brady Martz.

Planned Completion Date
The planned completion date will be the start of fiscal year 2023.

2022-004

Contact Person
Dan Juve

Planned Corrective Action
The District will implement the recommendation from Brady Martz.

Planned Completion Date
The planned completion date will be the start of fiscal year 2023.