

**NORTHEAST EDUCATIONAL
SERVICES COOPERATIVE**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2021

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE OFFICIALS
JUNE 30, 2021

Cooperative Board

Jolene King
Gary Brassfield
Cory Akin
Malory McIntire
Barb Asleson
Carie Knutson
Michelle Prins
Arend Schuurman
Lisa Lauterhahn
Todd Bjorklund
Jon Kahnke
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Paula Blue
Greg Bich
Jerod Olson
Zach Hildebrandt
Sue Braun
Gene Bjorklund
Lisa Amdahl
Art Berger
Penny Thyen
Martin Looyenga
Tia Felberg
Denise Lutkenmeier

Director

Gerald Aberle

Business Manager

Tiffany Stormo

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QUAM, BERGLIN & POST, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northeast Educational Services Cooperative No. 28-201
Hayti, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201 as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Pension Schedules and the Budgetary Comparison Schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Cooperative has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Educational Services Cooperative's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2022, on our consideration of the Northeast Educational Services Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Northeast Educational Services Cooperative's internal control over financial reporting and compliance.

Quam, Berglin + Post P.C.

Quam, Berglin and Post, P.C.
Elk Point, SD

January 25, 2022

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>Primary Government</u>
	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 1,074,437.48
Investments-Certificates of Deposit	82,003.85
Accounts Receivable	44,178.34
Due from Other Governments	497,173.71
Inventory of Supplies	20,279.71
Deposits	32,777.00
Net Pension Asset	5,089.04
Capital Assets:	
Land	1,451.00
Other Capital Assets, Net of Depreciation	<u>360,168.82</u>
TOTAL ASSETS	<u>2,117,558.95</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related Deferred Outflows	<u>828,193.13</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>828,193.13</u>
LIABILITIES :	
Accounts Payable	58,055.69
Accrued Wages & Benefits Payable	314,036.31
Unearned Revenue	<u>185,926.82</u>
TOTAL LIABILITIES	<u>558,018.82</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension Related Deferred Inflows	<u>665,473.24</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>665,473.24</u>
NET POSITION:	
Net Investment in Capital Assets	361,619.82
Restricted for:	
SDRS Pension Purposes	167,808.93
Insurance Purposes	32,777.00
Special Education	996,222.08
Unrestricted Net Position	<u>163,832.19</u>
TOTAL NET POSITION	<u>\$ 1,722,260.02</u>

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

				Net (Expense) Revenue and Changes in Net Position
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Total Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental Activities:				
Instruction	\$ 1,220,794.01	\$ 591,201.58	\$	\$ (629,592.43)
Support Services	<u>3,302,450.58</u>	<u>1,500,329.18</u>	<u>2,148,444.34</u>	<u>346,322.94</u>
Total Governmental Activities	<u>4,523,244.59</u>	<u>2,091,530.76</u>	<u>2,148,444.34</u>	<u>(283,269.49)</u>
Total Primary Government	<u>\$ 4,523,244.59</u>	<u>\$ 2,091,530.76</u>	<u>\$ 2,148,444.34</u>	<u>(283,269.49)</u>
General Revenues:				
Revenue from Local Sources:				
Investment Earnings				5,446.22
Gain on Capital Assets				<u>9,413.35</u>
Total General Revenues				<u>14,859.57</u>
Change in Net Position				<u>(268,409.92)</u>
Net Position - Beginning				<u>1,990,669.94</u>
NET POSITION - ENDING				<u>\$1,722,260.02</u>

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ 188,707.05	\$ 885,730.43	\$ 1,074,437.48
Investments-Certificates of Deposit		82,003.85	82,003.85
Accounts Receivable	43,678.34	500.00	44,178.34
Due from Other Governments	22,726.71	474,447.00	497,173.71
Inventory of Supplies	173.53	20,106.18	20,279.71
Deposits	<u>32,777.00</u>		<u>32,777.00</u>
TOTAL ASSETS	<u>\$ 288,062.63</u>	<u>\$ 1,462,787.46</u>	<u>1,750,850.09</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 6,018.02	\$ 52,037.67	58,055.69
Contracts Payable		275,047.14	275,047.14
Payroll Deductions and Withholdings and Employer Matching Payable		38,989.17	38,989.17
Unearned Revenue	<u>85,435.42</u>	<u>100,491.40</u>	<u>185,926.82</u>
Total Liabilities	<u>91,453.44</u>	<u>466,565.38</u>	<u>558,018.82</u>
Fund Balances:			
Non-Spendable	32,950.53	20,106.18	53,056.71
Restricted - Special Education		976,115.90	976,115.90
Assigned-Unemployment	830.54		830.54
Unassigned	<u>162,828.12</u>		<u>162,828.12</u>
Total Fund Balances	<u>196,609.19</u>	<u>996,222.08</u>	<u>1,192,831.27</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 288,062.63</u>	<u>\$ 1,462,787.46</u>	<u>\$ 1,750,850.09</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total Fund Balances - Governmental Funds	\$ 1,192,831.27
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Amounts reported for governmental activities in the statement
of net position is different because:

Capital assets used in governmental activities are not financial
resources, and therefore, are not reported in the funds.

Capital Assets	\$ 729,296.06	
Less: accumulated depreciation	<u>(367,676.24)</u>	361,619.82

Net Pension Asset reported in governmental activities is not an
available financial resource and therefore is not reported in the
funds.

5,089.04

Pension related deferred outflows are components of pension
asset and therefore are not reported in the funds.

828,193.13

Pension related deferred inflows are components of pension
liability and therefore are not reported in the funds

(665,473.24)

Net Position - Governmental Funds

\$ 1,722,260.02

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Revenue from Local Sources:			
Tuition and Fees:			
Regular Day School Tuition	\$ 478.44	\$ 591,201.58	\$ 591,201.58
Earnings on Investments and Deposits	478.44	4,967.78	5,446.22
Other Revenue from Local Sources:			
Services Provided Other LEAs	4,677.93		4,677.93
Other	263,759.88	1,231,891.37	1,495,651.25
Revenue from State Sources:			
Grants-in-Aid:			
Unrestricted Grants-in-Aid		130,704.55	130,704.55
Other State Revenue		26,206.79	26,206.79
Revenue from Federal Sources:			
Grants-in-Aid:			
Unrestricted Grants-in-Aid			
Received from Federal Government Through the State	129.27	32,345.73	32,475.00
Grants-in-Aid:			
Restricted Grants-in-Aid			
Received from Federal Government Through the State	40,140.00	1,918,918.00	1,959,058.00
Total Revenue	<u>309,185.52</u>	<u>3,936,235.80</u>	<u>4,245,421.32</u>
Expenditures:			
Instruction:			
Other Regular Programs	27,068.49		27,068.49
Special Programs:			
Early Childhood Programs		351,663.65	351,663.65
Programs for Special Education		591,201.58	591,201.58
Prolonged Assistance Programs		5,535.88	5,535.88
Support Services:			
Pupils:			
Guidance		25,428.02	25,428.02
Psychological		610,560.43	610,560.43
Speech Pathology		1,101,825.79	1,101,825.79
Student Therapy Services		727,920.09	727,920.09
Support Services - Instructional Staff:			
Improvement of Instruction	35,068.01	99,331.72	134,399.73
Educational Media	3,927.73	39,904.64	43,832.37
Support Services - General Administration:			
Board of Education	10,421.94	86,735.46	97,157.40
Executive Administration	25,875.43	256,541.81	282,417.24
Support Services - Business:			
Fiscal Services	8,039.42	83,111.83	91,151.25
Operation and Maintenance of Plant	89,261.43	21,665.09	110,926.52
Other Professional Services	9,568.19		9,568.19

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Special Education Fund	Total Governmental Funds
Capital Outlay	83,000.00		83,000.00
Total Expenditures	<u>292,230.64</u>	<u>4,001,425.99</u>	<u>4,293,656.63</u>
Other Financing Sources (Uses)			
Sale of Surplus Property	3,491.50		3,491.50
Compensation for Sale of Assets	5,921.85		5,921.85
Transfer In		75,000.00	75,000.00
Transfer Out	<u>(75,000.00)</u>		<u>(75,000.00)</u>
Total Other Financing Sources (Uses)	<u>(65,586.65)</u>	<u>75,000.00</u>	<u>9,413.35</u>
Net Change in Fund Balance	(48,631.77)	9,809.81	(38,821.96)
Fund Balance - July 1, 2020	<u>245,240.96</u>	<u>986,412.27</u>	<u>1,231,653.23</u>
FUND BALANCE - JUNE 30, 2021	<u>\$ 196,609.19</u>	<u>\$ 996,222.08</u>	<u>\$ 1,192,831.27</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ (38,821.96)

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay expense exceeds depreciation expense by:

Capital Outlay	\$ 83,000.00	
Depreciation Expense	<u>(67,263.55)</u>	15,736.45

Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.

(245,324.41)

Change in Net Position of Governmental Activities \$ (268,409.92)

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2021

	<u>Custodial Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$6,275.81
Accounts Receivable	<u>990.57</u>
TOTAL ASSETS	<u>7,266.38</u>
 LIABILITIES:	
No Liabilities	<u>0.00</u>
TOTAL LIABILITIES	<u>0.00</u>
 NET POSITION	<u>\$7,266.38</u>

The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Custodial Funds</u>
ADDITIONS:	
Flex Revenues	\$ 27,861.70
Total Additions	<u>27,861.70</u>
DEDUCTIONS:	
Flex Expenses	<u>26,190.28</u>
Total Deductions	<u>26,190.28</u>
Change in Net Position	<u>1,671.42</u>
Net Position - Beginning	<u>0.00</u>
Restatement - Implementation of GASB 84 (See Note 2)	5,594.96
Net Position - Beginning as Restated	<u>5,594.96</u>
NET POSITION - ENDING	<u>\$ 7,266.38</u>

The notes to the financial statements are an integral part of this statement

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cooperative conform to generally accepted accounting principles applicable to government entities of the United States of America.

a. Financial Reporting Entity

The reporting entity of Northeast Educational Services Cooperative consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

Arlington School District No. 38-1	3.37%
Britton-Hecla School District No. 45-4	5.31%
Castlewood School District No. 28-1	2.64%
Clark School District No. 12-2	6.36%
De Smet School District No. 38-2	3.29%
Deubrook School District No. 5-6	4.58%
Deuel School District No. 19-4	6.86%
Elkton School District No. 5-3	3.37%
Enemy Swim Day School	4.25%
Estelline School District No. 28-2	4.26%
Florence School District No. 14-1	3.12%
Hamlin School District No. 28-3	6.20%
Henry School District No. 14-2	3.20%
Iroquois School District No. 2-3	3.61%
Lake Preston School District No. 38-3	2.24%
Oldham/Ramona School District No. 39-5	2.15%
Rosholt School District No. 54-5	3.61%
Sioux Valley School District No. 5-5	8.15%
Summit School District No. 54-6	2.80%
Waubay School District No. 18-3	2.88%
Waverly School District No. 14-5	4.98%
Webster Area School District No. 18-5	6.20%
Willow Lake School District No. 12-3	2.80%
Wilmot School District No. 54-7	3.77%

The Cooperative's governing board is composed of one representative from each member school district, who is a school board member of the member school district. The governing board is responsible for adopting the cooperative's budget and setting service fees at a level adequate to fund the adopted budget.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

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

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

The funds of the Cooperative's financial reporting entity are described below within their respective fund types:

Governmental Funds:

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

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

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the member school districts. This fund is financed by grants and assessments charged to member school districts. This is a major fund.

Fiduciary Funds:

Fiduciary Funds consists of the following category and are never considered to be major funds:

Custodial Funds - *Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The Cooperative maintains custodial funds to hold assets as an agent in a trustee capacity for flex accounts, and so on.*

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the Cooperative is 60 days. The revenues which were accrued at June 30, 2021 are amounts due from other governments.

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

Expenditures generally are recognized when the related fund liability is incurred.

Fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pool, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

e. Capital Assets

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

The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations, and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to

the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	ALL	NA	NA
Buildings	\$ 25,000	Straight Line	25-50 Years
Machinery and Equipment	5,000	Straight Line	2 -20 Years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

f. Program Revenues

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

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

g. Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as restricted net position.

h. Application of Net Position:

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

i. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Cooperative classifies governmental fund balances as follows:

- Nonspendable- includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted- includes fund balance amounts that are constrained for specific purpose which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned- includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned- includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

j. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Cooperative contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

NOTE 2 – IMPLEMENTATION OF NEW ACCOUNTING STANDARD

In 2021, the Cooperative implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities accounting standard. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial

reporting purposes and how those activities should be reported. The implementation of this standard required that the Cooperative present a Statement of Changes in Fiduciary Net Position for Custodial Funds for 2021. The implementation of this standard required the Cooperative to reclassify previously reported agency funds as custodial funds. The impact to the Cooperative resulted in certain activities previously reported as fiduciary not being considered fiduciary under GASB 84.

NOTE 3 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

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

Credit Risk - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits - The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2021, the Cooperative's deposits in financial institutions were not exposed to any custodial risk.

Custodial Credit Risk – Investments – The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2021, the Cooperative's deposits in financial institutions were not exposed to any custodial credit risk.

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative's policy is to credit all income from deposits and investments to the fund making the investment.

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year.

NOTE 5 - INVENTORY

Inventory is stated at the lower of cost or market. The cost valuation method is the first in, first out (FIFO) method.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2021 is as follows:

Primary Government	Balance 06/30/20	Increase	Decrease	Balance 06/30/21
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ 1,451.00	\$	\$	\$ 1,451.00
Capital Assets, depreciated:				
Buildings	58,849.00			58,849.00
Machinery & Equipment	624,396.06	83,000.00	(38,400.00)	668,996.06
Total Capital Assets, depreciated	683,245.06	83,000.00	(38,400.00)	727,845.06
Less: Accumulated Depreciation				
Buildings	(17,654.70)	(1,176.98)		(18,831.68)
Machinery & Equipment	(321,157.99)	(66,086.57)	38,400.00	(348,844.56)
Total Accumulated Depreciation	(338,812.69)	(67,263.55)	38,400.00	(367,676.24)
Total Capital Assets, being depreciated, net	344,432.37	15,736.45		360,168.82
Governmental Activities Capital Assets, net	\$ 345,883.37	\$ 15,736.45	\$	\$ 361,619.82
**Depreciation expense was charged to functions as follows:				
Governmental Activities				
Support Services				\$ 67,263.55

NOTE 7 – RESTRICTED NET POSITION

Restricted Net Position for the year ended June 30, 2021 was as follows:

Major Purposes:	Restricted by:	
Special Education	Law	\$ 996,222.08
SDRS Pension Purposes	Law	167,808.93
NPIP Insurance Reserve	Contract	<u>32,777.00</u>
Total Restricted Net Position		<u>\$ 1,196,808.01</u>

NOTE 8 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2021, the Cooperative managed its risks as follows:

Employee Health Insurance

The Cooperative joined the Northern Plains Insurance Pool. This is a risk pool currently operating as a common risk management and insurance program for local government entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases coverage from either Sanford Health Plan or DAKOTACARE Administrative Services with the premiums it receives from the members.

The coverage includes the option of three different plans with a deductible from \$2,000.00 to \$4,000.00

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

Liability Insurance

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

Worker's Compensation

The Cooperative purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

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

The Cooperative has assigned fund balance in the amount of \$830.54 in the General Fund for the payment of future unemployment benefits.

During the year ended June 30, 2021, no claims for unemployment benefits were paid. At June 30, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 9 – PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of

South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

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

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the

employee's contribution. The cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2021, 2020, and 2019, equal to required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 158,300.62
2020	154,209.56
2019	149,907.72

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

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

Proportionate share of pension benefit	\$ 14,404,735.14
Less proportionate share of net pension restricted pension benefits	<u>14,409,824.18</u>
Proportionate share of net pension liability (asset)	<u>\$ (5,089.04)</u>

At June 30, 2021, the Cooperative reported a liability (asset) of \$(5,089.04) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Cooperative's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the Cooperative's proportion was 0.11717840%, which is an increase (decrease) of (0.0003073) %, from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Cooperative recognized pension expense (reduction of pension expense) of \$245,324.41. At June 30, 2021 the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 19,468.33	\$ 3,986.62
Changes in assumption	163,921.83	661,105.98
Net difference between projected and actual earnings on pension plan investments	473,000.89	
Changes in proportion and difference between District contributions and proportionate share of contributions	13,501.46	380.64
District contributions subsequent to the measurement date	<u>158,300.62</u>	
TOTAL	<u>\$ 828,193.13</u>	<u>\$ 665,473.24</u>

\$158,300.62 reported as deferred outflow of resources related to pensions resulting from Cooperative contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2022	\$	(58,741.59)
2023		(45,294.17)
2024		7,154.06
2025		88,180.16
TOTAL	\$	<u>(8,701.54)</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rates	6.50% net of plan investment expense
Future COLAs	1.41%

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

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

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

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

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made rates

equal to member rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Cooperative's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50% as well as what the Cooperative's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
Cooperative's proportionate share of the net pension liability (asset)	\$ 1,974,208.28	\$ (5,089.04)	\$ 1,624,115.25

Pension Plan Fiduciary Net Position:

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

NOTE 10 – INTERFUND TRANSFERS

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

	<u>Transfers to:</u>
Transfers from: <u>Special Education</u>	
General Fund	\$ 75,000.00

The Cooperative transferred funds from the General Fund to the Special Education Fund to help reduce the amount of assessments charged to the member school districts.

NOTE 11 – SIGNIFICANT CONTINGENCIES – LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Earnings on Investments and Deposits	\$ 325.00	\$ 325.00	\$ 478.44	\$ 153.44
Other Revenue from Local Sources:				
Services Provided from Other LEAs	79,760.04	79,760.04	4,677.93	(75,082.11)
Other	312,135.72	312,135.72	263,759.88	(48,375.84)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid				
Through the State	129.27	129.27	129.27	
Grants-in-Aid:				
Restricted Grants-in-Aid				
Through the State	41,203.71	41,203.71	40,140.00	(1,063.71)
Total Revenue	433,553.74	433,553.74	309,185.52	(124,368.22)
Expenditures:				
Instruction:				
Regular Programs:				
Other Regular Programs	34,300.75	34,300.75	27,068.49	7,232.26
Support Services - Instructional Staff:				
Improvement of Instruction	74,437.97	120,641.68	35,068.01	85,573.67
Educational Media	5,025.56	5,025.56	3,927.73	1,097.83
Support Services - General Administration:				
Board of Education	11,805.33	11,930.64	10,421.94	1,508.70
Executive Administration	28,246.42	28,246.42	25,875.43	2,370.99
Support Services - Business:				
Fiscal Services	8,959.34	8,959.34	8,039.42	919.92
Operation and Maintenance of Plant	226,112.27	226,116.23	172,261.43	53,854.80
Support Services - Business:				
Other Professional Services	13,000.00	13,000.00	9,568.19	3,431.81
Total Expenditures	401,887.64	448,220.62	292,230.64	155,989.98
Excess of Revenue Over (Under)				
Expenditures	31,666.10	(14,666.88)	16,954.88	31,621.76
Other Financing Sources (Uses):				
Transfer (Out)	(75,000.00)	(75,000.00)	(75,000.00)	
Sale of Surplus Property			3,491.50	3,491.50
Compensation for Sale of Property			5,921.85	5,921.85
Total Other Financing Sources (Uses)	(75,000.00)	(75,000.00)	(65,586.65)	9,413.35
Change in Fund Balances	(43,333.90)	(89,666.88)	(48,631.77)	41,035.11
Fund Balance - July 1, 2020	245,240.96	245,240.96	245,240.96	
FUND BALANCE - JUNE 30, 2021	\$ 201,907.06	\$ 155,574.08	\$ 196,609.19	\$ 41,035.11

REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Tuition from Other LEAs	\$ 686,350.62	\$ 686,350.62	\$ 591,201.58	\$ (95,149.04)
Earnings on Investments and Deposits	1,700.00	1,700.00	4,967.78	3,267.78
Other Revenue from Local Sources:				
Services Provided from Other LEAs				
Other	1,232,427.09	1,232,427.09	1,231,891.37	(535.72)
Revenue from State Sources:				
Unrestricted Grants in Aid	130,704.55	130,704.55	130,704.55	
Restricted Grants in Aid				
Other State Revenue	44,500.00	44,500.00	26,206.79	(18,293.21)
Revenue from Federal Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid				
Received from Federal Government				
Through the State	32,345.73	32,345.73	32,345.73	
Grants-in-Aid:				
Restricted Grants-in-Aid				
Through the State	1,910,010.00	1,910,010.00	1,918,918.00	8,908.00
Total Revenue	<u>4,038,037.99</u>	<u>4,038,037.99</u>	<u>3,936,235.80</u>	<u>(101,802.19)</u>
Expenditures:				
Instruction:				
Special Programs:				
Early Childhood Programs	379,821.35	380,046.35	351,663.65	28,382.70
Programs for Special Education	686,325.58	686,476.55	596,737.46	89,739.09
Support Services:				
Pupils:				
Guidance	27,982.34	27,982.34	25,428.02	2,554.32
Psychological	661,366.47	662,660.51	610,560.43	52,100.08
Speech Pathology	1,144,817.70	1,174,167.34	1,101,825.79	72,341.55
Student Therapy Services	811,387.07	811,406.02	727,920.09	83,485.93
Support Services - Instructional Staff:				
Improvement of Instruction	133,204.55	133,204.55	99,331.72	33,872.83
Educational Media	50,813.97	50,813.97	39,904.64	10,909.33
Support Services - General Administration:				
Board of Education	90,298.68	91,565.73	86,735.46	4,830.27
Executive Administration	285,602.63	285,602.63	256,541.81	29,060.82
Support Services - Business:				
Fiscal Services	90,588.84	90,588.84	83,111.83	7,477.01
Operation and Maintenance of Plant	44,916.09	44,956.17	21,665.09	23,291.08
Total Expenditures	<u>4,407,125.27</u>	<u>4,439,471.00</u>	<u>4,001,425.99</u>	<u>438,045.01</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(369,087.28)</u>	<u>(401,433.01)</u>	<u>(65,190.19)</u>	<u>336,242.82</u>
Other Financing Sources (Uses):				
Transfer In	75,000.00	75,000.00	75,000.00	
Change in Fund Balances	(294,087.28)	(326,433.01)	9,809.81	336,242.82
Fund Balance - July 1, 2020	986,412.27	986,412.27	986,412.27	
FUND BALANCE - JUNE 30, 2021	<u>\$ 692,324.99</u>	<u>\$ 659,979.26</u>	<u>\$ 996,222.08</u>	<u>\$ 336,242.82</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund and for each major
Special Revenue Fund with a Legally Required Budget

NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year, the board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number eight (8).
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total school district budget and may be transferred by resolution of the board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined, during the year, that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major special revenue fund.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 – GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

Schedule of Required Supplementary Information
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
South Dakota Retirement System

	2015	2016	2017	2018	2019	2020	2021
Coop's proportion of the net pension liability (asset)	0.1354982%	0.1272067%	0.1217707%	0.1228020%	0.1202797%	0.1174857%	0.1171784%
Coop's proportionate share of net pension liability (asset)	\$ (976,209)	\$ (539,520)	\$ 411,329	\$ (11,144)	\$ (2,805)	\$ (12,450)	\$ (5,089)
Coop's covered-employee payroll	\$ 2,366,977	\$ 2,322,423	\$2,315,467	\$ 2,495,081	\$ 2,500,492	\$2,498,930	\$2,570,154
Coop's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.24%	-23.23%	17.76%	-0.45%	-0.11%	-0.50%	-0.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.30%	104.10%	96.89%	100.10%	100.02%	100.09%	100.04%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Required Supplementary Information
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE
SCHEDULE OF THE COOPERATIVE'S CONTRIBUTIONS
South Dakota Retirement System

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	<u>\$ 139,346</u>	<u>\$ 138,928</u>	<u>\$ 149,705</u>	<u>\$ 150,030</u>	<u>\$ 149,908</u>	<u>\$ 154,210</u>	<u>\$ 158,301</u>
Contributions in relation to the contractually required contribution	<u>\$ 139,346</u>	<u>\$ 138,928</u>	<u>\$ 149,705</u>	<u>\$ 150,030</u>	<u>\$ 149,908</u>	<u>\$ 154,210</u>	<u>\$ 158,301</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Coop's covered-employee payroll	\$2,322,423	\$2,315,467	\$2,495,081	\$2,500,492	\$2,498,930	\$2,570,154	\$2,638,345
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedules of the Proportional Share of the Net Pension Liability (Asset) and
Schedule of Contributions

CHANGES FROM PRIOR VALUATION

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

CHANGES OF BENEFIT TERMS

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

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

CHANGES OF ASSUMPTIONS

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

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

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

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

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures Amount 2021</u>
U.S. Department of Education:			
Pass-Through the State of South Dakota:			
Special Education Cluster: (Note 4)			
Special Education - Grants to States	84.027A	611-28201-21	\$ 1,865,493.00
Special Education - Preschool Grants	84.173A	619-28201-21	<u>53,425.00</u>
Total Special Education Cluster			<u>1,918,918.00</u>
U.S. Department of the Treasury:			
Pass-Through the State of South Dakota:			
Coronavirus Relief Fund (Note 3)	21.019	CRF-28201-21	32,475.00
Total U.S. Department of Education			<u>1,951,393.00</u>
GRAND TOTAL			<u>\$ 1,951,393.00</u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Cooperative under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Cooperative.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Cooperative has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Federal Reimbursement

Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 4: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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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

Board of Directors
Northeast Educational Services Cooperatives No. 28-201
Hayti, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northeast Educational Services Cooperative (Cooperative), as of June 30, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated January 25, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative'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 over financial reporting that might be significant deficiencies or material weaknesses 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 a certain deficiency in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2021-001 to be a significant deficiency.

Compliance and Other Matters

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

Northeast Educational Services Cooperative's Response to Findings

Northeast Educational Services Cooperative's response to the finding identified in our audit is described in the Corrective Plan of Action. Northeast Educational Services Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Quam, Berglin + Post P.C.

Quam, Berglin and Post, P.C.
Elk Point, SD

January 25, 2022

QUAM, BERGLIN & POST, P.C.

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

Board of Directors
Northeast Educational Services Cooperative No. 28-201
Hayti, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Northeast Educational Services Cooperative, Hayti, South Dakota (Cooperative) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2021. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Northeast Educational Services Cooperative compliance.

Opinion on Each Major Federal Program

In our opinion, Northeast Educational Services Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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 purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Quam and Berglin, P.C.
Elk Point, SD

January 25, 2022

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021**

PRIOR AUDIT FINDING:

Prior Other Audit Findings:

Prior Finding Number 2020-001:

A material weakness in internal control was reported for a lack of segregation of duties for the revenue function. This comment results from the size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal control.

Corrective Action Plan:

This prior audit comment has not been corrected and is being restated as a significant deficiency under the current audit findings as finding number 2021-001.

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements

- a. An unmodified opinion was issued on the financial statements of each opinion unit.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties as discussed in finding number 2021-001.
- c. Our audit did not disclose any instances of noncompliance that were material to the financial statements.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Uniform Guidance.
- f. The federal awards tested as major programs were:

Pass-Through the SD Department of Education

Special Education Cluster:

Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173

- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.00.
- h. Northeast Educational Services Cooperative did not qualify as a low-risk auditee.

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

CURRENT FEDERAL AUDIT FINDINGS:

There are no current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

Internal Control-Related Findings – Significant Deficiency:

Finding Number 2021-001: A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenue function

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition Found:

A significant deficiency in internal control was reported due to lack of proper segregation of duties for revenues, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Recommendations:

We recommend that the Board of Directors be cognizant of this lack of segregation of duties for revenues, and attempt to provide compensating controls, whenever and wherever possible and practical.

Response:

Tiffany Stormo, Business Manager for Northeast Educational Services Cooperative No. 28-201, is the contact person responsible for the corrective action plan for this comment. The Board of Directors is aware of this problem, which is a result of the size of the entity and precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Board of Directors has prepared a response to this finding, shown on the following page.

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PRESIDENT
BOARD OF DIRECTORS

Andrea Powell
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Tim Frewing
ASSISTANT DIRECTOR
Tim.Frewing@k12.sd.us

Tiffany Stormo
BUSINESS MANAGER
Tiffany.Stormo@k12.sd.us

MEMBER DISTRICTS

- Arlington #38-1
- Britton-Hecla #45-4
- Castlewood #28-1
- Clark #12-2
- De Smet #38-2
- Deubrook #5-6
- Deuel #19-4
- Elkton #5-3
- Enemy Swim Day School
- Estelline #28-2
- Florence #14-1
- Hamlin #28-3
- Henry #14-2
- Iroquois #2-3
- Lake Preston #38-3
- Oldham-Ramona #39-5
- Rosholt #54-4
- Rutland #39-4
- Sioux Valley #5-5
- Summit #54-6
- Waubay #18-3
- Waverly #14-5
- Webster Area #18-5
- Willow Lake #12-3
- Wilmot #54-7

Northeast Educational Services Cooperative

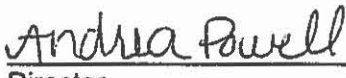
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CORRECTIVE PLAN OF ACTION June 30, 2021

Northeast Educational Services Cooperative has considered the lack of segregation of duties. At this time, it is not cost effective for Northeast Educational Services Cooperative to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Northeast Educational Services Cooperative to decrease the likelihood that financial data is adversely affected.

The Northeast Educational Services Cooperative's Board will continue to monitor the necessity to have segregation of duties and implement such segregation as budget dollars and board authority allow.


Business Manager


Director