

OAHE SPECIAL EDUCATION COOPERATIVE
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

**OAHE SPECIAL EDUCATION COOPERATIVE
COOPERATIVE OFFICIALS**

JUNE 30, 2020

Member Schools

Bowdle
Eureka
Herreid
Hoven
Selby Area
Smee

Governing Board

Jeff Oxner
Mark Opp, Vice President
Colleen Rueb
Mark Weber
Tom Fiedler, President
Patrick Hawk, Sr.

Alternates

Josh Mitzel
Corey Eberhart
Holly Randall

Steve Zabel
Willard Two Bears

Director

Debra Willert

Business Manager

Lori Lutz

OAHE SPECIAL EDUCATION COOPERATIVE

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OAHE SPECIAL EDUCATION COOPERATIVE

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KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' 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 Cooperative Board
Oahe Special Education Cooperative
Java, 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 Oahe Special Education Cooperative (Cooperative), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) 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 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings that we consider to be material weaknesses. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2020-001 to be a material weakness.

Compliance and Other Matters

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

Cooperative's Response to Findings

The Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Cooperative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative'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 Cooperative'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.

Handwritten signature in cursive script, appearing to read "Kahl, E. & A. Co., LLP".

November 16, 2020

OAHE SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2020

PRIOR AUDIT FINDINGS:

2019-001

A material weakness was reported for lack of segregation of duties for cash, revenues, receivables, grants, expenditures, payables, budget, debt, and equity, which could result in errors not being found in a timely manner.

Status:

This finding has not been corrected and is restated as current audit finding 2020-001.

OAHE SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2020

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2020-001

Criteria

Internal control can help the Cooperative achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the Cooperative complies with laws and regulations.

Condition Found

A material weakness was reported for lack of segregation of duties for cash; revenues, receivables and grants; expenditures and payables; budget; debt; and equity, which could result in errors not being found in a timely manner.

Cause

Internal controls are not adequately designed to prevent or detect material misstatements due to either fraud or error.

Effect

The Cooperative has a limited number of employees who prepare all records for cash; revenues, receivables and grants; expenditures and payables; budget; debt; and equity.

Recommendation

We recommend the Governing Board take a more active role in their oversight of cash; revenues, receivables and grants; expenditures and payables; budget; debt; and equity.

Views of Responsible Officials

The Cooperative has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash; revenues, receivables and grants; expenditures and payables; budget; debt; and equity and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. Some of the compensating controls that have been implemented include dual signature checks and board members reviewing vouchers. The Cooperative Board President, Tom Fiedler, is responsible for the corrective action plan for this finding.

Closing Conference

The contents of this report were discussed with Lori Lutz (Business Manager), Tom Fiedler (Board President) and Marti Schuetzle (Incoming Director) on October 15, 2020.

KOHLMAN, BIRSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

To the Cooperative Board
Oahe Special Education Cooperative
Java, 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 the Oahe Special Education Cooperative (Cooperative), as of and for the year ended June 30, 2020, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Oahe Special Education Cooperative as of June 30, 2020, and the respective changes in financial position 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 Budgetary Comparison Schedules and Pension Schedules on pages 23 through 27 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Cooperative's internal control over financial reporting and compliance.

Kohlen, Brinckley & Lee, LLP

November 16, 2020

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF NET POSITION
JUNE 30, 2020

	<u>PRIMARY GOVERNMENT Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 541,630
Other assets	19,285
Net pension asset	<u>2,981</u>
TOTAL ASSETS	<u>563,896</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension related deferred outflows	<u>183,521</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>183,521</u>
LIABILITIES:	
Accounts payable	1,327
Other current liabilities	<u>98,012</u>
TOTAL LIABILITIES	<u>99,339</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension related deferred inflows	<u>68,143</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>68,143</u>
NET POSITION:	
Restricted for:	
SDRS pension purposes	118,359
Unrestricted	<u>461,576</u>
TOTAL NET POSITION	<u><u>\$ 579,935</u></u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government
				Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 355,010	\$ -	\$ 16,329	\$ (338,681)
Support services	660,635	954,345	-	293,710
Total Governmental Activities	1,015,645	954,345	16,329	(44,971)
Total Primary Government	<u>\$ 1,015,645</u>	<u>\$ 954,345</u>	<u>\$ 16,329</u>	<u>(44,971)</u>
General Revenues:				
		Unrestricted Investment Earnings		4,137
		Other General Revenues		<u>8,701</u>
		Total General Revenues		<u>12,838</u>
		Change in Net Position		(32,133)
		Net Position - Beginning		<u>612,068</u>
		Net Position - Ending		<u>\$ 579,935</u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund
ASSETS:	
Cash and cash equivalents	\$ 541,630
Due from other government	420
Deposits	11,488
Prepaid expenses	<u>7,377</u>
TOTAL ASSETS	<u><u>\$ 560,915</u></u>
LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Accounts payable	\$ 1,327
Contracts payable	86,775
Payroll deductions and withholdings and employer matching payable	<u>11,237</u>
TOTAL LIABILITIES	<u>99,339</u>
FUND BALANCES:	
Nonspendable:	
Prepays	7,377
Deposits	11,488
Assigned:	
Next year's budget	74,535
Unassigned	<u>368,176</u>
TOTAL FUND BALANCES	<u>461,576</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 560,915</u></u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total Fund Balances - Governmental Funds	\$ 461,576
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	2,981
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	183,521
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(68,143)</u>
Net Position - Governmental Activities	<u><u>\$ 579,935</u></u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General Fund
REVENUES:	
Revenue from Local Sources:	
Earnings on investments and deposits	\$ 4,137
Other revenue from local sources:	
Services provided other school districts	954,345
Refund of prior years' expenditures	7,807
Other	894
Revenue from Federal Sources:	
Grants-in-aid:	
Restricted grants-in-aid received from federal government through the state	16,329
TOTAL REVENUES	<u>983,512</u>
EXPENDITURES:	
Instruction:	
Special programs:	
Programs for special education	319,951
Support Services:	
Students:	
Psychological	141,976
Speech pathology	196,955
Student therapy services	108,363
General administration:	
Board of education	20,078
Executive administration	53,788
Business:	
Fiscal services	70,724
Operation and maintenance of plant	9,004
TOTAL EXPENDITURES	<u>920,839</u>
NET CHANGE IN FUND BALANCES	62,673
FUND BALANCE - BEGINNING	<u>398,903</u>
FUND BALANCE - ENDING	<u><u>\$ 461,576</u></u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 62,673
Amounts reported for governmental activities in the statement of activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., accrued interest expense, pension expense)	(96,212)
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>1,406</u>
Change in Net Position of Governmental Activities	<u><u>\$ (32,133)</u></u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

	Private-Purpose Trust Funds
ASSETS:	
Cash and cash equivalents	\$ 551
TOTAL ASSETS	<u>\$ 551</u>
NET POSITION:	
Held in trust for scholarships	\$ 551
TOTAL NET POSITION	<u>\$ 551</u>

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

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. **Financial Reporting Entity:**

The reporting entity of Oahe Special Education Cooperative (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.

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. Governmental activities generally are financed through service charges to members of the Cooperative, intergovernmental revenues, and other non-exchange revenues.

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

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

Fund Financial Statements:

Fund financial statements of the 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 governmental and fiduciary categories. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the corresponding total for all governmental funds, or
2. Management has elected to classify one or more governmental 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 financial reporting entity are described below within their respective fund types:

Governmental Funds:

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

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - (Continued)

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Cooperative maintains one private-purpose trust fund, the Flemmer Memorial Trust, which is used for the purpose of providing awards to students.

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 are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

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 fund types 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 are accrued at June 30, 2020, are the amounts due from member school districts.

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. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All 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.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - (Continued)

d. Deposits:

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 pools, are also considered to be cash equivalents.

e. 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 two 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.

f. Equity Classifications:

Government-Wide Financial Statements:

Equity is classified as net position and is displayed as follows:

1. 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.
2. Unrestricted Net Position - All other net position that does not meet the definition of “restricted”.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Fiduciary fund equity is reported as net position held in trust for other purposes.

g. 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.

h. Fund Balance Classification Policies and Procedures:

In accordance with Governmental 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 purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - (Continued)

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Governing Board.

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 Nonspendable Fund Balance is comprised of the amount reported as prepaid expenses and deposits.

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.

i. 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 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

Deposits - The Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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 educational cooperative funds to be invested only 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 investments to 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.

As of June 30, 2020, the Cooperative did not have any investments.

Concentration of Credit Risk - The Cooperative places no limit on the amount that may be invested in any one issuer.

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.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - (Continued)

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 investments to the fund making the investment.

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

NOTE 4 - OPERATING LEASES

Amounts paid for operating leases for the year ended June 30, 2020, totaled \$7,800.

In April 2019, a lease of office space was extended for a two year period beginning July 1, 2019 through June 30, 2021, with minimum monthly rental payments of \$650 to be paid from the General Fund. The following are the remaining minimum payments on this operating lease with the two year extension as of June 30, 2020:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2021	<u>\$ 7,800</u>
	<u><u>\$ 7,800</u></u>

NOTE 5 - 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 survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in 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://sdrs.sd.gov/publications.aspx> 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 after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - (Continued)

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 accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater 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 fiscal years ended June 30, 2020, 2019, and 2018, were \$36,954, \$35,548, and \$37,341, respectively, equal to the required contributions each year.

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

At June 30, 2019, SDRS is 100.09% 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 June 30, 2020, are as follows:

Proportionate share of pension liability	\$ 3,505,655
Less proportionate share of net pension restricted for pension benefits	<u>3,508,636</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (2,981)</u></u>

At June 30, 2020, the Cooperative reported a liability (asset) of \$(2,981) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, 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, 2019, the Cooperative's proportion was 0.02813030%, which is a decrease of 0.0015344% from its proportion measured as of June 30, 2018.

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - (Continued)

For the year ended June 30, 2020, the Cooperative recognized pension expense of \$94,806. At June 30, 2020, 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	\$ 11,694	\$ 1,349
Changes in assumption	102,957	42,208
Net difference between projected and actual earnings on pension plan investments	-	17,173
Changes in proportion and difference between Cooperative contributions and proportionate share of contributions	31,916	7,413
Cooperative contributions subsequent to the measurement date	<u>36,954</u>	<u>-</u>
TOTAL	<u><u>\$ 183,521</u></u>	<u><u>\$ 68,143</u></u>

\$36,954 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 in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ending June 30:

2021	\$ 73,621
2022	95
2023	(1,780)
2024	<u>6,488</u>
Total	<u><u>\$ 78,424</u></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%
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - (Continued)

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period 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, 2018 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	100%	

Discount Rate:

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Cooperative's proportionate share of the net pension liability (asset)	\$ 494,795	\$ (2,981)	\$ (408,578)

Pension Plan Fiduciary Net Position:

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

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2020, 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 of \$1,500 to \$4,000.

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.

Workers' 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.

During the year ended June 30, 2020, no claims were filed for unemployment benefits. At June 30, 2020, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

NOTE 7 - LITIGATION

At June 30, 2020, the Cooperative was not involved in any litigation.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through November 16, 2020, the date on which the financial statements were available to be issued. Management has determined there are none.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

OAHE SPECIAL EDUCATION COOPERATIVE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Revenue from Local Sources:				
Earnings on investments and deposits	\$ 5,000	\$ 5,000	\$ 4,137	\$ (863)
Other revenue from local sources:				
Services provided other school districts	992,559	992,559	954,345	(38,214)
Refund of prior year's expenditures	-	-	7,807	7,807
Other	3,000	3,000	894	(2,106)
Revenue from State Sources:				
Grants-in-aid:				
Restricted grants-in-aid	2,500	2,500	-	(2,500)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	20,814	20,814	16,329	(4,485)
TOTAL REVENUES	1,023,873	1,023,873	983,512	(40,361)
EXPENDITURES:				
Instruction:				
Special programs:				
Programs for special education	380,862	380,862	319,951	60,911
Support Services:				
Students:				
Psychological	154,941	154,941	141,976	12,965
Speech pathology	212,036	212,036	196,955	15,081
Student therapy services	148,497	148,497	108,363	40,134
Instructional staff:				
Improvement of instruction	2,600	2,600	-	2,600
General administration:				
Board of education	25,574	25,574	20,078	5,496
Executive administration	63,879	63,879	53,788	10,091
Business:				
Fiscal services	73,601	73,601	70,724	2,877
Operation and maintenance of plant	10,588	10,588	9,004	1,584
Nonprogrammed Charges:				
Insurance costs	2,000	2,000	-	2,000
TOTAL EXPENDITURES	1,074,578	1,074,578	920,839	153,739
NET CHANGE IN FUND BALANCES	(50,705)	(50,705)	62,673	113,378
FUND BALANCE - BEGINNING	398,903	398,903	398,903	-
FUND BALANCE - ENDING	\$ 348,198	\$ 348,198	\$ 461,576	\$ 113,378

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
JUNE 30, 2020

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the governing 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 governing 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 governing board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the governing board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total Cooperative budget and may be transferred by resolution of the governing 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 adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund.
11. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

OAAHE SPECIAL EDUCATION COOPERATIVE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COOPERATIVE'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM
LAST 6 FISCAL YEARS*

	2020	2019	2018	2017	2016	2015
Cooperative's proportion of the net pension liability (asset)	0.0281303%	0.03%	0.0364522%	0.0301240%	0.032501%	0.03%
Cooperative's proportionate share of net pension liability (asset)	\$ (2,981)	\$ (692)	\$ (3,308)	\$ 101,757	\$ (137,844)	\$ (244,942)
Cooperative's covered payroll	\$ 592,465	\$ 622,347	\$ 740,627	\$ 572,815	\$ 593,361	\$ 594,530
Cooperative's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.50%	0.11%	0.45%	17.76%	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100%	100%	100%	97%	104%	107%

* 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. Until a full 10-year trend is compiled, the Cooperative will present information for those years for which information is available.

OAAHE SPECIAL EDUCATION COOPERATIVE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COOPERATIVE PENSION CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 36,954	\$ 35,548	\$ 37,341	\$ 44,438	\$ 34,369	\$ 35,601	\$ 35,672	\$ 34,287	\$ 32,828	\$ 33,316
Contributions in relation to the contractually required contribution	36,954	35,548	37,341	44,438	34,369	35,601	35,672	34,287	32,828	33,316
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cooperative's covered payroll	\$ 615,897	\$ 592,465	\$ 622,347	\$ 740,627	\$ 572,815	\$ 593,361	\$ 594,530	\$ 571,450	\$ 547,136	\$ 555,268
Contributions as a percentage of covered payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

OAHE SPECIAL EDUCATION COOPERATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION SCHEDULES
JUNE 30, 2020

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal 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, 2018, and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018, and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

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.