



Financial Statements
June 30, 2017

North Central Special Education Coop

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Independent Auditor's Report

The Cooperative Board
North Central Special Education Coop
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Central Special Education Coop (the Cooperative), as of and for the year ended June 30, 2017, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the North Central Special Education Coop, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension asset, and schedule of employer's contributions as listed on pages 25 through 30 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 American, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018 on our consideration of the 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.



Aberdeen, South Dakota
January 9, 2018

North Central Special Education Coop
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 391,894
Accounts receivable	12,160
Due from state government	713
Total assets	404,767
Deferred Outflows of Resources	
Pension related deferred outflows	271,224
	\$ 675,991
Liabilities	
Accounts payable	\$ 70,916
Noncurrent liabilities:	
Due within one year	34,760
Net pension liability	111,700
Total liabilities	217,376
Deferred Inflows of Resources	
Pension related deferred inflows	14,525
Total deferred inflows of resources	14,525
Net Position	
Restricted for:	
SDRS Benefits	144,999
Special Education	301,521
Unrestricted	(2,430)
Total net position	444,090
	\$ 675,991

North Central Special Education Coop
Statement of Activities
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	
				<u>Governmental Activities</u>	<u>Total</u>
Primary Government					
Governmental activities:					
Instruction	\$ 151,833	\$ 399,643	\$ 529,160	\$ 776,970	\$ 776,970
Support services	953,068	-	-	(953,068)	(953,068)
Total governmental activities	<u>1,104,901</u>	<u>399,643</u>	<u>529,160</u>	<u>(176,098)</u>	<u>(176,098)</u>
General Revenues					
Revenue from State sources:					
Other				184,983	184,983
Unrestricted investment earnings				460	460
Other general revenues				8,625	8,625
Total general revenues				<u>194,068</u>	<u>194,068</u>
Change in Net Position				17,970	17,970
Net Position - Beginning				<u>426,120</u>	<u>426,120</u>
Net Position - Ending				<u>\$ 444,090</u>	<u>\$ 444,090</u>

North Central Special Education Coop
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Special Education Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 21,348	\$ 370,546	\$ 391,894
120 Accounts receivable	12,160	-	12,160
140 Due from state government	713	-	713
	<u>\$ 34,221</u>	<u>\$ 370,546</u>	<u>\$ 404,767</u>
Liabilities and Fund Balances			
Liabilities			
404 Contracts payable	\$ 1,513	\$ 55,224	\$ 56,737
450 Payroll deductions and withholdings and employer matching payable	378	13,801	14,179
Total liabilities	<u>1,891</u>	<u>69,025</u>	<u>70,916</u>
Fund Balances			
Restricted:			
Special Education	-	301,521	301,521
Unassigned	32,330	-	32,330
Total fund balances	<u>32,330</u>	<u>301,521</u>	<u>333,851</u>
	<u>\$ 34,221</u>	<u>\$ 370,546</u>	<u>\$ 404,767</u>

North Central Special Education Coop
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds	\$ 333,851
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Long-term liabilities, including SD SDBF assessment is not due and payable in the current period and, therefore, is not reported in the funds.	(34,760)
Net pension liability, pension related deferred inflows of resources, and pension related deferred outflows of resources do not represent available financial resources and, therefore, are not reported in the funds.	<u>144,999</u>
Net Position - Governmental Funds	<u><u>\$ 444,090</u></u>

North Central Special Education Coop
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General Fund	Special Education Fund	Total Governmental Funds
Revenues			
1000 Revenue from local sources			
1500 Earnings on investments and deposits	\$ -	\$ 460	\$ 460
1900 Other revenue from local sources:			
1940 Services provided other LEAs	25,941	373,702	399,643
1990 Other	-	8,625	8,625
3000 Revenue from State sources			
3900 Other state revenue	184,983	-	184,983
4000 Revenue from Federal sources			
4100 Grants-in-aid:			
4150-4199 Restricted grants-in-aid received from Federal government through the State	2,177	526,983	529,160
Total revenues	<u>213,101</u>	<u>909,770</u>	<u>1,122,871</u>
Expenditures			
1000 Instruction			
1200 Special programs:			
1220 Programs for special education	\$ 3,005	\$ 144,080	\$ 147,085
2000 Support services			
2100 Pupils:			
2140 Psychological	8,004	153,051	161,055
2150 Speech pathology	-	366,177	366,177
2200 Support services - instructional staff:			
2210 Improvement of instruction	203,694	65,604	269,298
2300 Support services - general administration:			
2320 Executive administration	-	53,905	53,905
2500 Support services - business:			
2520 Fiscal services	-	75,598	75,598
Total expenditures	<u>214,703</u>	<u>858,415</u>	<u>1,073,118</u>
Excess of Revenue under Expenditures	<u>(1,602)</u>	<u>51,355</u>	<u>49,753</u>
Other Financing Sources			
5100 Transfers in	-	20,000	20,000
8110 Transfers out	(20,000)	-	(20,000)
Total other financing sources	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>
Net Change in Fund Balances	(21,602)	71,355	49,753
Fund Balance - Beginning	<u>53,932</u>	<u>230,166</u>	<u>284,098</u>
Fund Balance - Ending	<u>\$ 32,330</u>	<u>\$ 301,521</u>	<u>\$ 333,851</u>

North Central Special Education Coop
Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-
Wide Statement of Activities
Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 49,753
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Revenues and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.	<u>(31,783)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 17,970</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the North Central Special Education Coop (the Cooperative) conform to generally accepted accounting principles applicable to government entities in the United States of America.

Financial Reporting Entity

The Cooperative was formed in 1971. The Cooperative consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal 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 Cooperative’s financial statements to be misleading or incomplete. During fiscal year 2017 the Cooperative changed its board of record from Groton Area School Districts board to a separate governing board of elected officials. Thus, they are no longer a blended component unit of Groton Area School District.

The Cooperative is a joint venture that is composed of eight 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:

School District	Percentage
Doland	8.4%
Frederick Area	7.4%
Groton Area	27.9%
Hitchcock Tulare	10.1%
Langford Area	10.6%
Leola	9.2%
Northwestern Area	11.9%
Warner	14.5%
Total	100.0%

Basis of Presentation

The financial statements of the Cooperative have been prepared in accordance with generally accepted accounting principles (GAAP) as presented by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the Cooperative as a whole. They include all funds of the Cooperative. Governmental activities generally are financed through grants and other non-exchange revenues.

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 equals 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 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 Cooperative 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 Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% 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 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. The General Fund is always a major fund.

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

Special Education Fund- A fund established to provide special education services to participating school districts. This is a major fund.

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, 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 proprietary and similar trust 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 does not exceed one bill-paying cycle, and for the Cooperative, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2017 are the amounts due from the State and Federal government through the State. Grant receivables which are accrued at June 30, 2017 are due from the state government for \$713 and the federal government for \$12,160.

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.

Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental column.
2. In order to minimize the doubling-up effect on internal service fund activity, certain “centralized expenses” are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

Fund Financial Statements

Noncurrent portions of long-term interfund receivables are reported as nonspendable fund balance to the extent that the proceeds from the collection of those receivables are not restricted, committed, or assigned. Current portions of interfund receivables are considered “available spendable resources” and are reported in the appropriate fund balance category.

Capital Assets

Capital assets would include 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 over capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

At June 30, 2017, the cooperative does not have any capital assets.

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	N/A	N/A
Improvements	\$ 5,000	Straight-line	15-25 years
Buildings	25,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5-20 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.

Unavailable Revenue

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 resource.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of financing leases.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

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.

Cash and Cash Equivalents

The Cooperative pools its cash resources for deposit purposes. 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.

Equity Classifications

Government-Wide 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 may distinguish between non-spendable, restricted, committed, assigned and unassigned components.

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.

Fund Balance Classification Policies and Procedures

In accordance with GASB No. 54, 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.
- 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 School Board or Business Manager.
- 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 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 Cooperative would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Education Fund	Grants, local assessments

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense and revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Cooperative has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension asset not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Cooperative has one type of item that qualify for reporting in this category. The one item relates to changes in the net pension liability (asset) not included in pension expense report in the government-wide statement of net position.

Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits and Investments

The Cooperative follows the practice of aggregating the cash assets of various 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% 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.

Deposits are reported at cost plus interest, if the account is of the add-on type.

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.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Cooperative’s deposits may not be returned. The Cooperative does not have a policy for custodial credit risk. As of June 30, 2017, the Cooperative’s deposits in financial institutions were not exposed to any custodial credit risk.

The actual bank balances at June 30, 2017 were as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by State's/Cooperative's agent in the name of the State and the pledging financial institution	141,911
	\$ 391,911
The Cooperative's carrying amount of deposits at June 30, 2017	\$ 391,894

Investments

In general, SDCL 4-5-6 permits School District 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.

There are no investments held as of June 30, 2017.

Custodial Credit Risk – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Cooperative does not have an investment policy for custodial risk. When the Cooperative does own investments, they are held in the Cooperative’s name.

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.

Credit Risk – Currently, the Cooperative has no policy in regard to credit risk.

Concentration of Credit Risk – The Cooperative does not have a policy in place.

Note 3 - Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2017 is as follows:

<u>Governmental Activities</u>	<u>June 30, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2017</u>	<u>Due In One Year</u>
SD SDBF assessment	\$ 34,760	\$ -	\$ -	\$ 34,760	\$ 34,760
	<u>\$ 34,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,760</u>	<u>\$ 34,760</u>

Primary Government

Governmental Activities

Debt payable at June 30, 2017 is comprised of the following:

SD SDBF Assessment	
Requires one annual payment of \$34,760 due by August 1, 2017.	<u>\$ 34,760</u>
	<u>\$ 34,760</u>

Note 4 - 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. There have been no decreases in coverage from the previous fiscal year and settled claims have not exceeded coverage in any of the three previous fiscal years. During the year ended June 30, 2017, the Cooperative managed its risks as follows:

Employee Health Insurance

The Cooperative joined the South Dakota School District Health Benefits Fund (SD SDBF). This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides for a \$1,500 to \$2,500 deductible per person up to \$3,000 to \$5,000 per family, 80/20% coinsurance with up to 80% of \$10,000 to \$20,000 and a lifetime maximum of \$2,000,000 per person.

The Cooperative does not carry additional health insurance 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.

At June 30, 2016, the South Dakota School District Health Benefits Fund had a deficit net position. During fiscal year 2017 the Fund issued a fund-wide assessment to all of the districts participating in the Fund to make up this deficit net position. The amount assessed to the Cooperative was \$34,760 which is payable in lump sum or by payment plan. The Cooperative elected to make a lump sum payment which is due by August 1, 2017. At June 30, 2017 the SD SDBF has a positive net position.

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 provider. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation Insurance

The Cooperative participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Cooperative's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims.

The Cooperative pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The Cooperative may also be responsible for additional assessments in the event the pool is

determined by its Board of Trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

The Cooperative does not carry additional insurance to cover claims in excess of the upper limit. Settled claims 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.

At June 30, 2017, no claims had been filed for unemployment benefits and no claims are anticipated for unemployment in the next fiscal year.

Note 5 - Restricted Net Position

The following table shows the net assets restricted for other purposes as shown on the statement of net position:

Fund	Restricted By	Amount
SDRS Pension Benefits	Law	\$ 144,999
Special Education	Federal Regulation	301,521
		\$ 446,520

Note 6 - 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, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more — 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

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. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ending June 30, 2017, 2016 and 2015 were \$41,188, \$37,727 and \$34,613 respectively, equal to the required contributions each year.

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2016, SDRS is 96.9% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of SDRS, for the Cooperative as of the measurement period ending June 30, 2016 and reported by the Cooperative as of June 30, 2017 are as follows:

Proportionate share of pension liability	\$ 3,588,281
Less proportionate share of net pension restricted for pension benefits	<u>3,476,581</u>
Proportionate share of net pension liability (asset)	<u><u>\$ 111,700</u></u>

At June 30, 2017, the Cooperative reported a liability (asset) of \$111,700 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 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, 2016, the Cooperative proportionate share was .03306790% which is an increase (decrease) of .0014703% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Cooperative recognized pension expense (reduction of pension expense) of \$31,783. At June 30, 2017, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 38,885	\$ -
Changes in assumption	66,903	-
Net difference between projected and actual earnings on pension plan investments	124,248	-
Changes in proportion and difference between Cooperative contributions and proportionate share of contributions	-	14,525
Cooperative contributions subsequent to the measurement date	<u>41,188</u>	<u>-</u>
	<u><u>\$ 271,224</u></u>	<u><u>\$ 14,525</u></u>

There is \$41,188 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended June 30:	Amount
2018	\$ 56,740
2019	32,215
2020	75,425
2021	51,131
	\$ 215,511

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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 weighting 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, 2016 (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%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from 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 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 7.25% through 2017 and 7.50% thereafter, 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 one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) 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)	\$ 625,072	\$ 111,700	\$ (307,010)

Pension Plan Fiduciary Net Position

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

Note 7 - Interfund Transfers

Interfund transfers for the year ended June 30, 2017 were as follows:

	Transfers To	
Transfers From	Special Education Fund	Total
Major Funds:		
General Fund	\$ 20,000	\$ 20,000

SDCL 13-16-26 gives the School Board the authority to transfer all or part of any surplus of any School District fund, except the capital outlay fund provided by SDCL 13-16-6 to 13-16-9, inclusive, and the special education fund provided by SDCL 13-37-16 may be transferred to any other School District fund. The interfund transfer above is not a violation of the statutory restrictions on interfund transfers. The transfer above was made to supplement operations.

Note 8 - Litigation

At June 30, 2017, the Cooperative was not involved in any litigation.



Required Supplementary Information
June 30, 2017

North Central Special Education Coop

North Central Special Education Coop
 Budgetary Comparison Schedule – Budgetary Basis – General Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1900 Other revenue from local sources:				
1940 Services provided other LEAs	\$ 17,000	\$ 17,000	\$ 25,941	\$ 8,941
3000 Revenue from State sources				
3900 Other state revenue	215,918	215,918	184,983	(30,935)
4000 Revenue from Federal sources:				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	10,000	10,000	2,177	(7,823)
Total revenues	<u>242,918</u>	<u>242,918</u>	<u>213,101</u>	<u>(29,817)</u>
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	13,000	13,000	3,005	9,995
2000 Support services				
2100 Pupils:				
2142 Psychological service	7,902	7,902	8,004	(102)
2200 Support services - instructional staff:				
2210 Improvement of instruction	201,727	201,727	203,694	(1,967)
Total expenditures	<u>222,629</u>	<u>222,629</u>	<u>214,703</u>	<u>7,926</u>
Excess of Revenue under Expenditures	<u>20,289</u>	<u>20,289</u>	<u>(1,602)</u>	<u>(21,891)</u>
Other Financing Sources				
8110 Transfers out	(25,000)	(25,000)	(20,000)	5,000
Total other financing sources	<u>(25,000)</u>	<u>(25,000)</u>	<u>(20,000)</u>	<u>5,000</u>
Net Change in Fund Balances	(4,711)	(4,711)	(21,602)	(16,891)
Fund Balance - Beginning	<u>53,932</u>	<u>53,932</u>	<u>53,932</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 49,221</u>	<u>\$ 49,221</u>	<u>\$ 32,330</u>	<u>\$ (16,891)</u>

North Central Special Education Coop
 Budgetary Comparison Schedule – Budgetary Basis –Special Education Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
1000 Revenue from local sources				
1500 Earnings on investments and deposits	\$ 50	\$ 50	\$ 460	\$ 410
1900 Other revenue from local sources:				
1940 Services provided other LEAs	373,701	373,701	373,702	1
1990 Other	8,300	8,300	8,625	325
4000 Revenue from federal sources				
4100 Grants-in-aid:				
4150-4199 Restricted grants-in-aid received from Federal government through the State	528,493	528,493	526,983	(1,510)
Total revenues	910,544	910,544	909,770	(774)
Expenditures				
1000 Instruction				
1200 Special programs:				
1220 Programs for special education	184,178	184,178	144,080	40,098
2000 Support services				
2100 Pupils:				
2142 Psychological services	158,390	158,390	153,051	5,339
2152 Speech pathology services	399,697	399,697	366,177	33,520
2200 Support services - instructional staff:				
2210 Improvement of instruction	73,858	73,858	65,604	8,254
2300 Support services - general administration:				
2320 Executive administration	54,408	54,408	53,905	503
2500 Support services - business:				
2520 Fiscal services	79,217	79,217	75,598	3,619
Total expenditures	949,748	949,748	858,415	91,333
Excess of Revenue under Expenditures	(39,204)	(39,204)	51,355	90,559
Other Financing Sources				
5110 Transfers in	20,000	20,000	20,000	-
Total other financing sources	20,000	20,000	20,000	-
Net Change in Fund Balances	(19,204)	(19,204)	71,355	90,559
Fund Balance - Beginning	230,166	230,166	230,166	-
Fund Balance - Ending	\$ 210,962	\$ 210,962	\$ 301,521	\$ 90,559

Note 1 - Basis of Presentation

The budgetary comparison schedules have been prepared on the modified accrual basis of accounting. The budgetary comparison schedule presents expenditures for capital outlay purposes within each function while the governmental funds statement of revenues, expenditures, and changes in fund balance presents capital outlay expenditures as a separate function.

Note 2 - Budgetary Legal Requirements

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 trust and agency funds.
6. After adoption by the Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, 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% of the total cooperative 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.
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 Board.
10. Formal budgetary integration is employed as a management control device during the year for the general fund, capital project funds, and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds of the Cooperative only.

North Central Special Education Coop
Schedule of Employer's Share of Net Pension Liability (Asset)
Year Ended June 30, 2017

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Employer's Percentage of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered- Employee Payroll (b)</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
SDRS	6/30/2016	0.03306790%	\$ 111,700	\$ 628,787	17.8%	96.9%
SDRS	6/30/2015	0.03159760%	(134,014)	576,888	-23.2%	104.1%
SDRS	6/30/2014	0.02764160%	(199,146)	483,376	-41.2%	107.0%

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

North Central Special Education Coop
Schedule of Employer's Contributions
Year Ended June 30, 2017

<u>Pension Plan</u>	<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered- Employee Payroll (b/d)</u>
SDRS	6/30/2017	\$ 41,188	\$ 41,188	\$ -	\$ 686,470	6.0%
SDRS	6/30/2016	37,727	37,727	-	628,787	6.0%
SDRS	6/30/2015	34,613	34,613	-	576,888	6.0%

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

Notes to Required Supplementary Information

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.



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*

The Cooperative Board
North Central Special Education Coop
Aberdeen, 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 and each major fund of North Central Special Education Coop (the Cooperative) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated January 9, 2018.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2017-A to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-B to be a significant deficiency.

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

North Central Special Education Coop's response to the findings identified in our audit is described in the accompanying schedule of 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.



Aberdeen, South Dakota
January 9, 2018

Current Audit Findings and Recommendations

Finding 2017-A Preparation of Financial Statements and Footnotes, and Material Proposed Adjustments to the Financial Statements

Criteria: The Cooperative's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: North Central Special Education Coop requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended June 30, 2017. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Cooperative's existing internal controls and; therefore, could result in a misstatement of the Cooperative's financial statements.

Cause: The limited size of the Cooperative's staff and resources cause the inability to prepare the financial statements and footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-B Improper Allocation of Expenses

Criteria: The Cooperative's internal control structure should be designed to communicate quality and accurate information internally and externally.

Condition: North Central Special Education Coop recorded adjustments allocating expenses to improper accounts for submission to the State for reimbursement.

Cause: The controls in place were not adequate to detect the misallocation of expense items for the submission of the reports.

Effect: This condition may affect the Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: A thorough review of the reports should take place prior to submission to an external party, to ensure reporting requirements have been followed for each report type. We also recommend a budget amendment request be made to the granting agency when budget overspending has occurred to ensure allowability of the costs prior to submission of grant reimbursement. Lastly, we recommend contacting the granting agency to determine if and what reports need to be revised and resubmitted for error noted for reimbursement request.

Views of Responsible Officials: Management agrees with the finding.