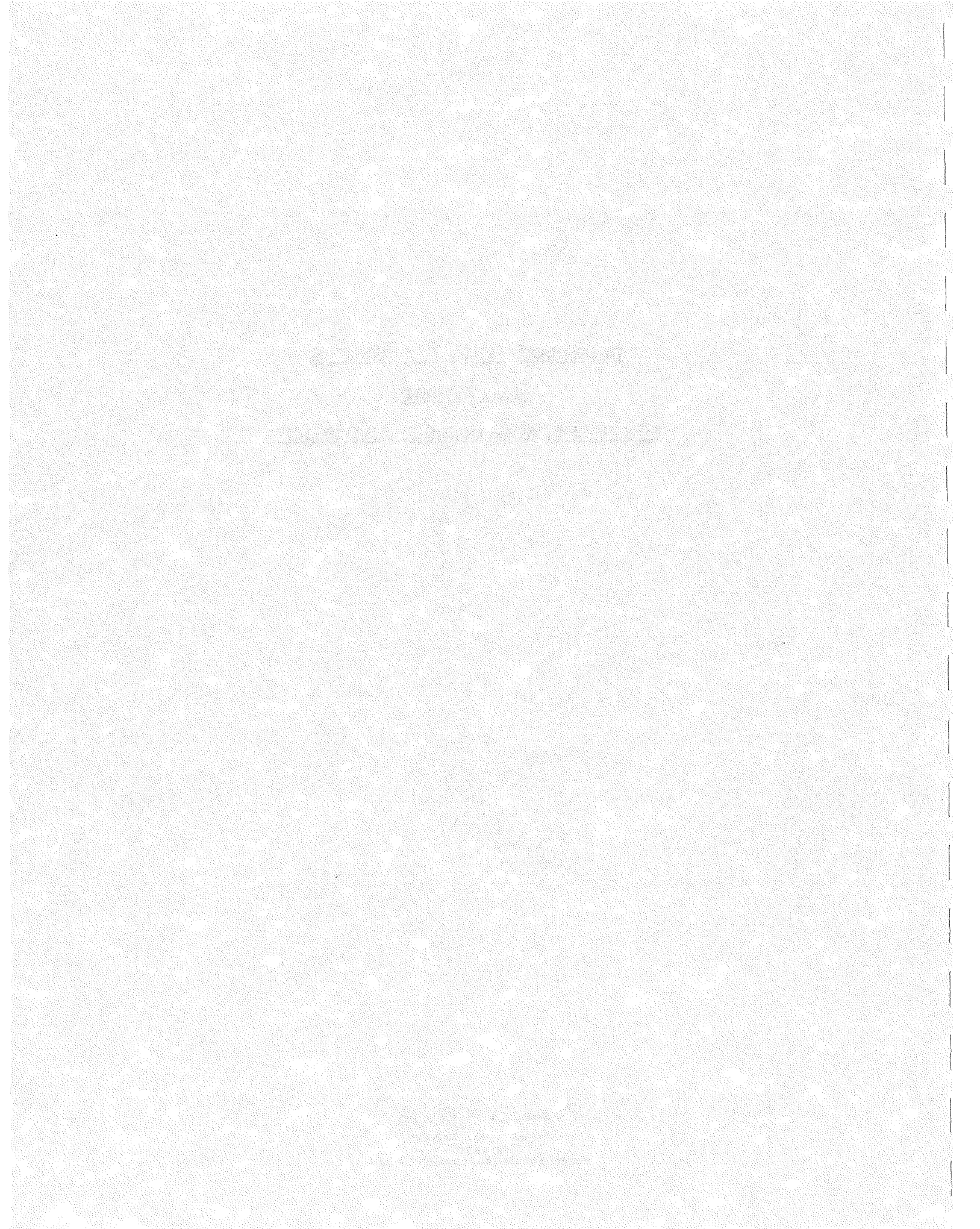


CORE EDUCATIONAL COOPERATIVE
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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CORE EDUCATIONAL COOPERATIVE

CORE EDUCATIONAL COOPERATIVE
COOPERATIVE OFFICIALS
JUNE 30, 2017

School District:

Burke School District
Armour School District
Colome Consolidated School District
Corsica-Stickney School District
Gregory School District
Kimball School District
Mt. Vernon School District
Plankinton School District
Platte-Geddes School District
Wessington Springs School District
White Lake School District
Wolsey-Wessington

Board Members:

Holly Mosterd, President
Tina Westendorf
Vince Thieman
Chad Clites
Karen Timanus
Lisa Pazour
Dale Larsch
Casey Schmidt
Tammie Olson
Tonya Aldrich
Jim Munsen
Jim McGillvrey

Advisory Board Member:

Erik Person, President
Andrea Powell
Ryan Orrock
Scott Muckey
Sara Klein
Jeff Rieckman
Pat Mikkonen
Steve Randall
Joel Bailey
Lance Witte
Robert Schroeder
James Cutshaw

Director:

Valerie Johnson

Business Manager:

Kathleen A. Holter

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CERTIFIED PUBLIC ACCOUNTANTS

Phone: 605-928-7241

FAX No.: 605-928-6241

P.O. Box247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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

Board of Directors
Core Educational Cooperative
Platte, 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 the Core Educational Cooperative, Platte, South Dakota (Cooperative), as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated August 4, 2017.

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 was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 findings 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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Schoenfish & Co., Inc.
 Certified Public Accountants
 August4,2017

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CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

There are no prior audit findings to report as this is the Cooperative's first year of operations.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control - Related Finding - Material Weakness:

Finding Number 2017-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the first audit in which this finding is reported.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Business Manager processes all transactions from beginning to end. The Business Manager also receives and disburses money, issues receipts and checks, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

RECOMMENDATION:

1. We recommend that the Core Educational Cooperative officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Core Educational Cooperative Governing Board is responsible for the corrective action plan for this comment. This comment is due to the size of the Core Educational Cooperative, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are developing policies and attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with four Board Members and two Advisory Board members, the Director of the Cooperative, the former Business Manager, and the Business Manager on July 26, 2017.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Core Educational Cooperative
Platte, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Core Educational Cooperative, Platte, South Dakota, (Cooperative) as of June 30, 2017, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Core Educational Cooperative as of June 30, 2017, 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 Management' Discussion and Analysis (MD&A), and the Budgetary Comparison Schedules on pages 7 through 11 and 26, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2017 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

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Schoenfish & Co., Inc.
 Certified Public Accountants
 August 4, 2017

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CERTIFIED PUBLIC ACCOUNTANTS
 P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Core Educational Cooperative's annual financial report presents our discussion and analysis of the Cooperative's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the Cooperative's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Cooperative:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Cooperative's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Cooperative's government, reporting the Cooperative's operations in more detail than the government-wide statements.
- The only fund financial statements the Cooperative has are those pertaining to the governmental funds. These tell how general governmental services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1
Required Components of Core Educational Cooperative's Annual Financial Report

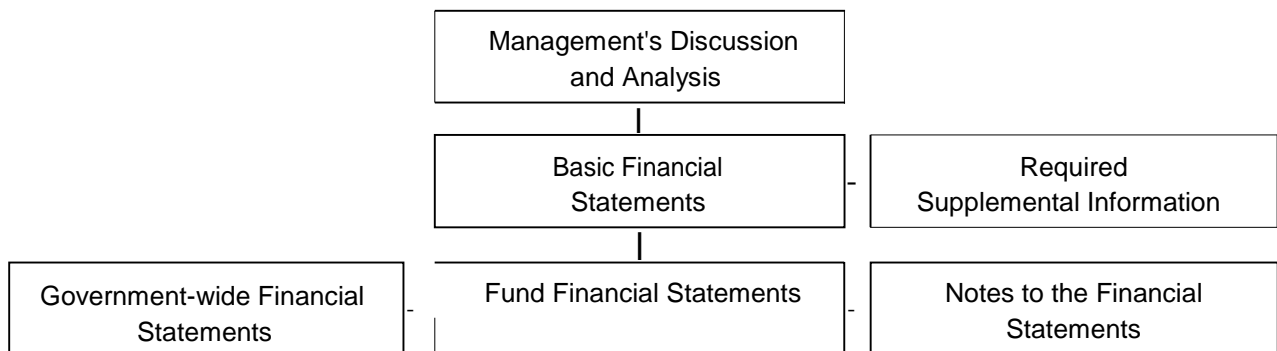


Figure A-2 summarizes the major features of the Cooperative's financial statements, including the portion of the school government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of Core Educational Cooperative's Government-wide and Fund Financial Statements		
	<u>Government-wide Statements</u>	<u>Fund Financial Statements</u>
Scope	Entire school government	The activities of the cooperative that are proprietary or fiduciary. The Core Cooperative is not proprietary or fiduciary.
Required Financial Statements	*Statement of Net Position *Statement of Net Activities	*Balance Sheet *Statement of Revenues, Expenditures & Changes in Fund Balance
Accounting Basis and Measurement Focus	Accrual accounting; include economic resources focus.	Modified accrual accounting; include only current financial resources
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets included.
Type of Inflow/Outflow Information	Any revenue and expenses incurred; regardless of when cash is received or paid.	Only cash receipts and disbursements for the year or soon thereafter.

Government-wide Statements

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

The two government-wide statements report the Cooperative's net position and how it has changed. Net position - the difference between the Cooperative's assets and liabilities - is one way to measure the Cooperative's financial health or position. Increases or decreases in the Cooperative's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Cooperative are reported in only one category - Governmental Activities. This category includes the Cooperative's basic support services (psychological, speech/language, student therapy, executive administration, fiscal services, etc.) and capital equipment purchases. Revenue from services provided to other LEA's finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Cooperative's fund. The Cooperative has one kind of fund - Governmental Fund. All of the Cooperative's basic services are included in the governmental fund, which focuses on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Cooperative's programs.

FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE

Net Position -The Cooperative's combined net position is explained as follows:

Table A-1
Statement of Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2017</u>
Current and Other Assets	\$ -	\$ 215,518
Net Pension Asset	\$ -	\$
Capital Assets	\$ -	\$ 152,743
Total Assets	\$ -	\$ 368,261
Pension Related Deferred Outflows	\$ -	\$
Total Deferred Outflows of Resources	\$ -	\$
Long-Term Debt Outstanding	\$ -	\$
Other Liabilities	\$	\$ 105
Total Liabilities	\$	\$ 105
Pension Related Deferred Outflows	\$ -	\$
Total Deferred Outflows of Resources	\$	\$
Net Position:		
Net Investment in Capital Assets	\$ -	\$ 152,743
Restricted for SDRS Pension Purposes	\$ -	\$
Unrestricted	\$	\$ 215,413
Total Net Position	\$	\$ 368,156
Beginning Net Position	\$ -	\$
Increase (Decrease) in Net Position	\$ -	\$ 368,156
% of Increase (Decrease) in Net Position	0%	100.00%

Changes in Net Position

This is the Core Educational Cooperative's first year in existence. The assets are comprised of cash on hand and vehicles purchased for staff transportation. The only liability at the end of this fiscal year was an invoice expensed to FY 2017. The Cooperative's two administrative employees were employed on a part-time basis. Because they were less than full-time employees, there was no participation and no contributions to the South Dakota Retirement Program.

GOVERNMENTAL ACTIVITIES

Table A-2, and the narrative that follows, considers the operations of the governmental activities.

Table A-2
Changes in Net Position

	Governmental Activities	
	2016	2017
Revenues		
Program Revenues		
Charges for Services	\$	\$ 444,000
Operating Grants & Contributions	\$	\$
General Revenues	\$	\$
Total Revenues	\$	\$ 444,000
Expenses		
Instruction	\$ -	\$
Support Services	\$ -	\$ 75,844
Total Expenses	\$ -	\$ 75,844
Increase (Decrease) in Net Position	\$	\$ 368,156
Total Net Position	\$	\$ 368,156

FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUNDS

The General Fund assessed each of the twelve member schools \$37,000.00 to be used for start-up costs. Beginning January 1, 2017 the Cooperative hired an interim director and business manager to establish the cooperative for full operation beginning July 1, 2017. During this time, the coop expended these funds on salaries, legal services, equipment, vehicles, insurance, and hiring and recruiting costs. The cooperative ended the year with a cash balance of \$215,518.06.

BUDGETARY HIGHLIGHTS

An initial budget was prepared by the Advisory Board in the early phase of this Cooperative's formation. Near the close of the fiscal year, supplemental budget was passed to properly allocate and increase appropriations to prevent budget overruns.

	<u>General Fund Budget</u>	
	Original	Final
Revenue	\$444,000.00	\$444,000.00
Expenditures	<u>\$444,000.00</u>	<u>\$444,000.00</u>
Variance	<u>\$ 0.00</u>	<u>\$ 0.00</u>

CAPITAL ASSET ADMINISTRATION

By the end of 2017, the only capital assets acquired for the Cooperative were 19 vehicles totaling \$152,743 net of depreciation.

**Table A-3
CORE EDUCATIONAL COOPERATIVE - Capital Assets
(Net of Depreciation)**

	Governmental Activities		Total Dollar Change	Total Percentage Change
	2016	2017	2016-2017	<u>2016-2017</u>
	Machinery & Equipment	\$ 0	\$ 152,743	\$ 152,743
	<u>\$ 0</u>	<u>\$ 152,743</u>	<u>\$ 152,743</u>	<u>100%</u>

LONG TERM DEBT OBLIGATIONS

There were no long term debt obligations as of June 30, 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary source of revenue for the Cooperative is funding from the local district assessments from its member schools. These assessments are based primarily on the schools Special Education child count numbers. Other sources of revenue include Medicaid reimbursements and payments from non-member LEA's for special services provided.

CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our communities with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact the Core Educational Cooperative Business Office, 612 S. Main Street, Platte, SD 57369.

**CORE EDUCATIONAL COOPERATIVE
STATEMENT OF NET POSITION
As of June 30, 2017**

	<u>Primary Government Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	215,518.06
Capital Assets:	
Other Capital Assets, Net of Depreciation	152,743.00
TOTAL ASSETS	<u>368,261.06</u>
LIABILITIES :	
Accounts Payable	105.00
TOTAL LIABILITIES	<u>105.00</u>
NET POSITION:	
Net Investment in Capital Assets	152,743.00
Unrestricted	215,413.06
TOTAL NET POSITION	<u>368,156.06</u>

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

**CORE EDUCATIONAL COOPERATIVE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017.**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
Support Services	75,843.94	444,000.00			368,156.06
Total Governmental Activities	<u>75,843.94</u>	444,000.00	0.00	0.00	368,156.06
Total Primary Government	<u>75,843.94</u>	444,000.00	0.00	0.00	368,156.06
		General Revenues:			
		Total General Revenues			0.00
		Change in Net Position			368,156.06
		Net Position - Beginning			0.00
		NET POSITION - ENDING			<u>368,156.06</u>

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

**CORE EDUCATIONAL COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2017**

	General Fund
ASSETS:	
Cash and Cash Equivalents	215,518.06
TOTAL ASSETS	215,518.06
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	105.00
Total Liabilities	105.00
Fund Balances:	
Unassigned	215,413.06
Total Fund Balances	215,413.06
TOTAL LIABILITIES AND FUND BALANCES	215,518.06

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

CORE EDUCATIONAL COOPERATIVE
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds	<u>215,413.06</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>152,743.00</u>
Net Position - Governmental Activities	<u>368,156.06</u>

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

CORE EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General Fund
Revenues:	
Revenue from Local Sources:	
Other Revenue from Local Sources:	
Services Provided Other School Districts	444,000.00
Total Revenue	444,000.00 1
Expenditures:	
Support Services:	
Students:	
Health	1,300.00
Instructional Staff:	
Educational Media	15,281.99
General Administration:	
Board of Education	9,139.24
Executive Administration	28,703.06
Business:	
Fiscal Services	19,957.45
Central:	
Staff	1,042.20
Capital Outlay	153,163.00
Total Expenditures	228,413.94 1
Net Change in Fund Balances	215,413.06 1
Fund Balance - Beginning	0.00
FUND BALANCE - ENDING	215,413.06

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

CORE EDUCATIONAL COOPERATIVE
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	<u>215,413.06</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>153,163.00</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(420.00)</u>
Change in Net Position of Governmental Activities	<u><u>368,156.06</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS1. 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 Core Educational 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. The Cooperative has only governmental funds. Governmental activities generally are financed through taxes, 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 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, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into one major category: governmental. 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/expenses of the individual governmental fund are at least 10 percent 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 fund are at least 5 percent of the corresponding total for all governmental funds combined, or
3. 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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 Laws (SDCL) 13-16-3 to meet all the general operational costs of the Cooperative, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major Fund.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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 all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Core Educational Cooperative, the length of that cycle is 60 days.

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. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

d. Deposits and Investments:

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

e. Capital Assets:

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

The accounting treatment over capital assets depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements:

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

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

The total June 30, 2017 balance of capital assets for governmental activities is all valued at original cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 0.00	-----N/A-----	-----N/A-----
Buildings & Improvements	\$25,000.00	Straight-line	50 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	10-50 yrs.

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 governmental fund upon acquisition.

f. Program Revenues:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

g. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in three components.

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components.

h. Application of Net Position:

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

i. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASS) 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.

NOTES TO THE FINANCIAL STATEMENTS(Continued)

- 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 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/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 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.

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 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 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

As of June 30, 2017, the Cooperative did not have any investments.

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.

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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(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.

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.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017, is as follows:

	Balance 07/01/2016	Increases	Decreases	Balance 06/30/2017
Primary Government:				
Governmental Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	0.00	153,163.00		153,163.00
Total, being depreciated	<u>0.00</u>	<u>153,163.00</u>	0.00	<u>153,163.00</u>
Less Accumulated Depreciation for:				
Machinery & Equipment	0.00	{420.00}		{420.00}
Total Accumulated Depreciation	<u>0.00</u>	<u>{420.00}</u>	0.00	<u>{420.00}</u>
Total Capital Assets, being depreciated, net	<u>0.00</u>	<u>152,743.00</u>	0.00	<u>152,743.00</u>
Governmental Activity Capital Assets, Net	<u>0.00</u>	<u>152,743.00</u>	<u>0.00</u>	<u>152,743.00</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Support Services	\$ <u>420.00</u>

5. OPERATING LEASES

Core Educational Cooperative has a lease to purchase agreement with Mid Central Educational Cooperative to purchase the building in which Core Educational Cooperative is operating. The purchase price has been set at \$290,000. Until the closure of this contract, Core Educational Cooperative shall pay to Mid Central Educational Cooperative the annual rent of \$6,000 in monthly payments of \$500.

Subject to Core Educational Cooperative's ability to obtain financing, Core shall pay Mid Central the balance remaining in the amount of \$290,000 at the time of closing, which shall be within 90 calendar days after all litigation concerning Mid Central Educational Cooperative has ceased. So long as Core remains in good standing of this agreement, Mid Central shall credit towards the purchase price at closing the sum of money from each monthly lease payment that Core timely made.

6. PENSION PLAN

Core Educational Cooperative joined the South Dakota Retirement system as of July 1, 2017.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. FINANCING OF COOPERATIVE

Local financing of the Cooperative is raised by each member school district contributing \$35,000 per year plus a pro-rated share of said amount based upon the number of special education children enrolled at each member district.

The members of the Cooperative and their relative percentage participation in the Cooperative are as follows:

Armour School District No. 21-1	5.20%
Burke School District No. 26-2	8.05%
Colome Consolidated School District No. 59-3	6.72%
Corsica-Stickney School District No. 21-3	5.20%
Gregory School District No. 26-4	9.95%
Kimball School District No. 7-2	7.67%
Mount Vernon School District No. 17-3	8.05%
Plankinton School District No. 1-1	12.41%
Platte-Geddes School District No. 11-5	12.23%
Wessington Springs School District No. 36-2	8.43%
White Lake School District No. 1-3	3.68%
Wolsey-Wessington School District No. 2-6	12.41%

8. 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, 2017, the Cooperative managed its risks as follows:

Liability Insurance:

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

Worker's Compensation:

The Cooperative purchases liability insurance for worker's compensation from a commercial carrier.

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 or were outstanding. It is not anticipated that any claims for unemployment benefits will be filed in the next fiscal year.

9. SIGNIFICANT CONTINGENCIES- LITIGATION

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. RELATED PARTY DISCLOSURE

Six board members of Core Educational Cooperative were also board members of Mid Central Educational Cooperative. In addition, the director of Core Educational Cooperative was also an employee of Mid Central Educational Cooperative. Mid Central Educational Cooperative ceased normal operations as of June 30, 2017.

Core Educational Cooperative purchased thirteen vehicles from the Mid Central Educational Cooperative. As noted above, six board members were board members of both cooperatives when this transaction took place.

The business manager of Core Educational Cooperative at June 30, 2017 is also the business manager of the Platte-Geddes School District which is a member school in the Cooperative.

The above instances could cause a conflict of interest when making decisions on behalf of these entities.

**REQUIRED SUPPLEMENTARY INFORMATION
CORE EDUCATIONAL COOPERATIVE
BUDGETARY COMPARISON SCHEDULE- BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Other Revenue from Local Sources:				
Services Provided Other School Districts	<u>444,000.00</u>	<u>444,000.00</u>	<u>444,000.00</u>	<u>0.00</u>
Total Revenue	<u>444,000.00</u> I	<u>444,000.00</u> II	<u>444,000.00</u> I I	<u>0.00</u> I
Expenditures:				
Instruction:				
Support Services:				
Pupils:				
Health	<u>0.00</u>	<u>1,300.00</u>	<u>1,300.00</u>	<u>0.00</u>
Instructional Staff:				
Educational Media	<u>0.00</u>	<u>15,500.00</u>	<u>15,281.99</u>	<u>218.01</u>
General Administration:				
Board of Education	<u>6,000.00</u>	<u>9,200.00</u>	<u>9,192.24</u>	<u>60.76</u>
Executive Administration	<u>20,000.00</u>	<u>28,400.00</u>	<u>28,703.06</u>	<u>(303.06)</u>
Business:				
Fiscal Services	<u>15,000.00</u>	<u>20,000.00</u>	<u>19,957.48</u>	<u>42.55</u>
Operation and Maintenance of Plant	<u>154,000.00</u>	<u>152,000.00</u>	<u>153,163.00</u>	<u>1,037.00</u>
Central:				
Staff	<u>0.00</u>	<u>1,100.00</u>	<u>1,042.20</u>	<u>57.80</u>
Special Education				
Administrative Costs	<u>10,000.00</u>	<u>10,000.00</u>	<u>0.00</u>	<u>10,000.00</u>
Contingencies				
Amount Transferred	<u>239,000.00</u>	<u>239,000.00</u> {34,700.00}		<u>204,300.00</u>
Total Expenditures	<u>444,000.00</u> I	<u>444,000.00</u> II	<u>228,586.94</u> I I	<u>215,413.06</u> I
Net Change in Fund Balances	<u>0.00</u> II	<u>0.00</u> II	<u>215,413.06</u> I I	<u>215,413.06</u> I
Fund Balance- Beginning	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>0.00</u>	<u>0.00</u>	<u>215,413.06</u>	<u>215,413.06</u>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

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

1. Prior to the first regular 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 and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated by 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 school 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 Special Fund.
11. Budgets for the Special Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences:

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

