

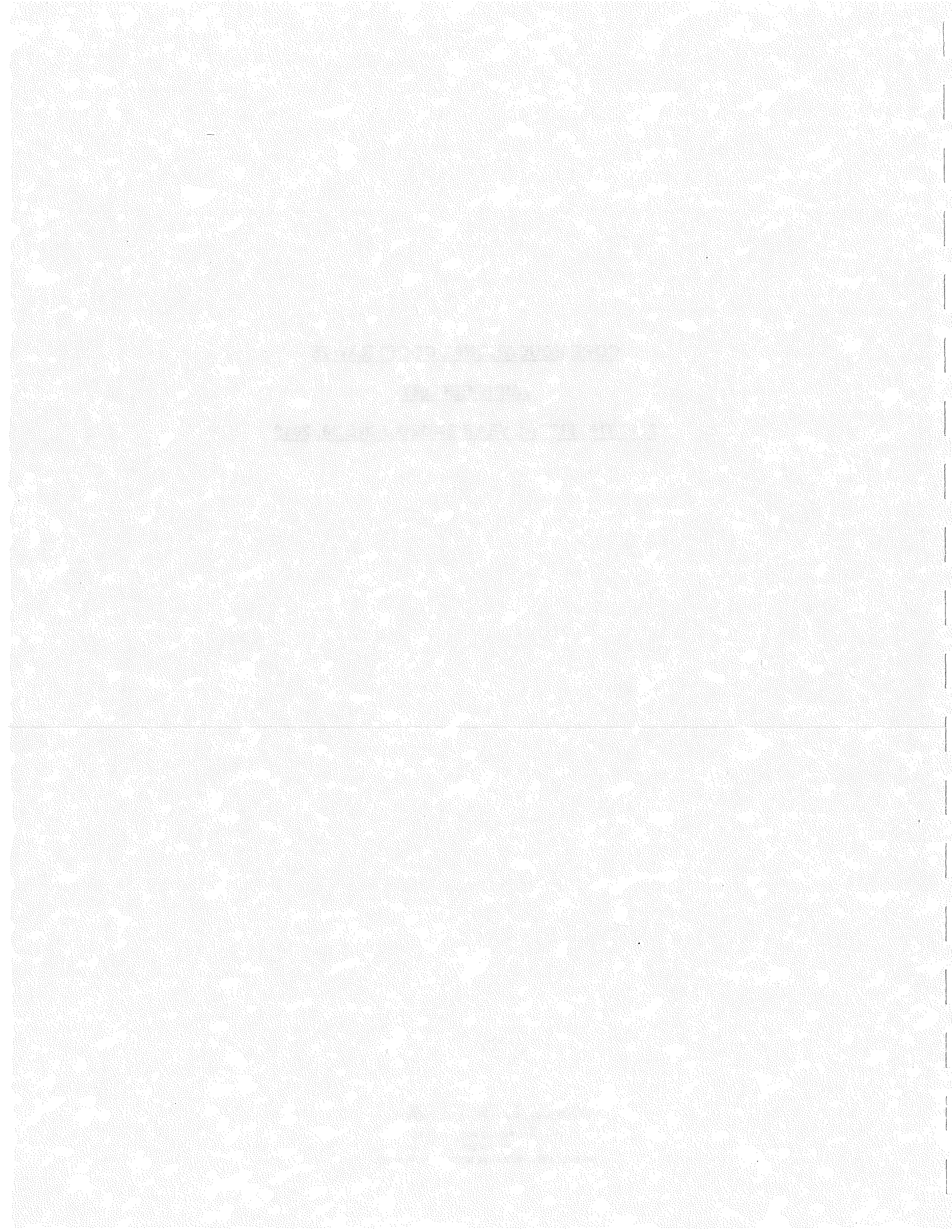
**CORE EDUCATIONAL COOPERATIVE**  
**AUDIT REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366



CORE EDUCATIONAL COOPERATIVE

---

CORE EDUCATIONAL COOPERATIVE  
COOPERATIVE OFFICIALS  
JUNE 30, 2018

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  
Joel Koskan  
Chad Clites  
Karen Timanus  
Lisa Pazour  
Dale Larsch  
Rodney Faulbauer  
Jess Sondegroth  
Tonya Aldrich  
Jim Munsen  
Tara Hochhalter

Advisory Board Member:

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

Director:

Valerie Johnson

Business Manager:

Catrina Brown

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366



CORE EDUCATIONAL COOPERATIVE

---

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i> .....	1-2
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	4-5
Independent Auditor's Report.....	6-7
Management's Discussion and Analysis (MD&A).....	8-13
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Position.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	17
Statement of Revenues, Expenditures, and Changes In Fund Balances.....	18
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances to the Government-Wide Statement of Activities.....	19
Notes to the Financial Statements.....	20-31
Required Supplementary Information:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund.....	32
Special Education Fund.....	33
Notes to the Required Supplementary Information – Budgetary Comparison Schedules.....	34
Schedule of the Cooperative Contributions.....	35

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366



CERTIFIED PUBLIC ACCOUNTANTS  
Phone: 605-928-7241  
FAX No.: 605-928-6241  
P.O. Box 247  
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, each major fund, and the aggregate discretely presented component units of the Core Educational Cooperative, Platte, South Dakota (Cooperative), as of June 30, 2018 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 December 3, 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 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 2018-001 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Current Audit Findings as item 2018-002.

#### Cooperative's Response to Findings

The Cooperative's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Cooperative's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### 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.



Schoenfish & Co., Inc.  
Certified Public Accountants  
December 3, 2018

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366



SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2017-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This comment has not been corrected and is restated as current audit finding 2018-001.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2018-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is a continuing audit comment since 2017.

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.

Compliance – Related Finding:

Finding Number 2018-002:

The Cooperative entered into several contracts for services as independent contractors but should be an employee/employer relationship. This is the first audit in which this finding is reported.

Criteria:

The Internal Revenue Service provides guidance as to when an employee/employer relationship exists rather than services provided by an independent contractor.

Condition:

The Cooperative has entered into several contracts for services that appear to be employee/employer relationships but are being paid as independent contractors.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

Effect:

When independent contractor status is allowed for actual employee/employer relationships, it is likely that the cooperative is not providing Social Security and Medicare payments as well as retirement and other benefits that are required for employees. This would be contrary to laws and guidance established by the IRS.

RECOMMENDATION:

2. We recommend that the Core Educational Cooperative officials contract for services as employee/employer relationships based on guidance provided by the Internal Revenue Service.

Management's Response:

The Core Educational Cooperative Governing Board is responsible for the corrective action plan for this comment. This Cooperative will be more cognizant of the rules established for employee/employer relationships and abide by these rules.

CLOSING CONFERENCE

The audit was discussed with the Board Members, the Director of the Cooperative and the Business Manager on December 6, 2018.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
Phone: 605-928-7241  
FAX No.: 605-928-6241  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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, each major fund, and the aggregate discretely presented component units of the Core Educational Cooperative, Platte, South Dakota, (Cooperative) as of June 30, 2018, 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, each major fund, and the aggregate discretely presented component units of the Core Educational Cooperative as of June 30, 2018, 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), the Budgetary Comparison Schedules, and the Schedule of Cooperative Contributions on pages 8 through 13, 32 through 33, and 35, 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 December 3, 2018 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.

*Schoenfish & Co., Inc.*

Schoenfish & Co., Inc.  
 Certified Public Accountants  
 December 3, 2018

*Schoenfish & Co., Inc.*

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, 2018. 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 governmental funds statements tell how general government 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

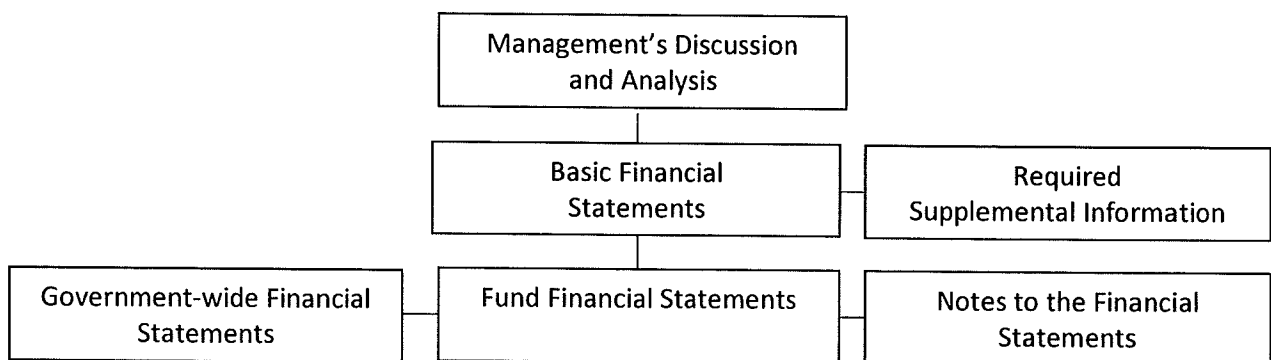


Figure A-2 summarizes the major features of the Cooperative's financial statements, including the portion of the cooperative's government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and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

## Government-wide Statements

Figure A-2

<b>Major Features of the Government-wide and Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Fund Statements Governmental Funds</b>
<b>Scope</b>	Entire Cooperative's government	The activities of the Cooperative that are not proprietary, such as support services.
<b>Required Financial Statements</b>	*Statement of Net Position *Statement of Net Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<b>Type of Asset/Liability Information</b>	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
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

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 plus deferred outflows and liabilities plus deferred inflows. 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 plus deferred outflows and liabilities plus deferred inflows – 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 two categories:

- **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 and Birth to Three services finance most of these activities.
- **Component Units** - The Cooperative includes one other entity in its report – the Dial Virtual School. Although legally separate, this "component unit" is important because the Cooperative is financially accountable for it.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Cooperative's funds – not the Cooperative as a whole. Funds are accounting devices that the Cooperative uses to keep track of specific sources of funding and spending for particular purposes. The Cooperative has two kinds of funds:

- **Governmental Funds**. All of the Cooperative's basic services are included in the governmental funds, which focuses on (1) how cash and other financial assets that can be 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:

Figure A-3

		Governmental Activities	
		2017	2018
Current & Other Assets		215,518	448,998
Capital Assets, Net of Depr.		152,743	628,437
Total Assets		368,261	1,077,435
Pension Related Deferred Outflows			70,749
Total Deferred Outflows of Resources		0	70,749
Other Liabilities		105	14,415
Total Liabilities		105	14,415
Net Investment in Capital Assets		152,743	174,439
Restricted			76,439
Unrestricted		215,413	428,893
Total Net Position		368,156	679,771
Beginning Net Position		0	368,156
Change in Net Position		368,156	311,615
% Change in Net Position		100.00%	84.64%

### Changes in Net Position

This is the Core Educational Cooperative’s second year in existence. The assets are comprised of cash on hand, receivables, and vehicles purchased for staff transportation. The liabilities at the end of the year consisted of accounts payable and contracts/benefits payable. The Cooperative employed 23 employees who made monthly contributions to the South Dakota Retirement Program.

Figure A-4, and the narrative that follows, considers the operations of the governmental activities.

**Figure A-4  
Change in Net Position**

	Governmental Activities	
	2017	2018
Program Revenues:		
Charges for Services	444,000	1,812,257
Operating Grants & Contr.		63,188
General Revenues:		
Other General Revenue		47,063
<b>Total Revenues</b>	<u>444,000</u>	<u>1,922,508</u>
Expenses:		
Support Services	75,844	1,610,893
<b>Total Expenses</b>	<u>75,844</u>	<u>1,610,893</u>
Change in Net Position	<u>368,156</u>	<u>311,615</u>
<b>Net Position - Ending</b>	<u><u>368,156</u></u>	<u><u>679,771</u></u>

#### FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUNDS

The cooperative had a positive change in net position at the end of year. The revenues totaled more than the expenditures for the year.

#### BUDGETARY HIGHLIGHTS

The Cooperative supplemented the budget one time. This supplemental budget was made for an increase in revenue due to insurance proceeds.

	General Fund Budget	
	Original	Final
Revenue	136,487	159,216
Expenditures	136,487	136,487
<b>Variance</b>	<u>0</u>	<u>22,729</u>

## CAPITAL ASSET ADMINISTRATION

By the end of 2018, the capital assets acquired for the Cooperative were twenty-one vehicles and a copy machine totaling \$174,439 net of depreciation.

	Balance 07/01/2017	Increases	Decreases	Balance 06/30/2018
Primary Government:				
Governmental Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	153,163	41,908		195,071
Total, being depreciated	<u>153,163</u>	<u>41,908</u>	<u>0</u>	<u>195,071</u>
Less Accumulated Depreciation for:				
Machinery & Equipment	(420)	(20,212)		(20,632)
Total Accumulated Depreciation	<u>(420)</u>	<u>(20,212)</u>	<u>0</u>	<u>(20,632)</u>
Total Capital Assets, being depreciated, net	<u>152,743</u>	<u>21,696</u>	<u>0</u>	<u>174,439</u>
Governmental Activity Capital Assets, Net	<u><u>152,743</u></u>	<u><u>21,696</u></u>	<u><u>0</u></u>	<u><u>174,439</u></u>

## LONG TERM DEBT OBLIGATIONS

There were no long term debt obligations as of June 30, 2018.

## 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 payments from non-member LEA's for special services provided.

The Core Educational Cooperative currently does receive state funding for Birth to Three services in which two coordinators are employed by the cooperative. The cooperative served as a fiscal agent for the DIAL Corporation.

## 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, 2018

	<b>Primary Government Governmental Activities</b>	<b>Component Units Dial Virtual School</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	250,896.54	139,832.86
Investments		200,877.81
Other Assets	24,714.35	11,970.00
Equity Interest in Dial Virtual School	173,387.04	
Capital Assets:		
Other Capital Assets, Net of Depreciation	174,439.00	
<b>TOTAL ASSETS</b>	<b>623,436.93</b>	<b>352,680.67</b>
<b>DEFERRED OUTFLOWS OF REOURSRES:</b>		
Pension Related Deferred Outflows	70,749.51	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>70,749.51</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	5,548.96	5,906.60
Other Current Liabilities	8,866.08	
<b>TOTAL LIABILITIES</b>	<b>14,415.04</b>	<b>5,906.60</b>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	174,439.00	
Restricted for:		
Dial Corporation Equity Interest		173,387.03
Special Education Purposes	76,439.52	
Unrestricted (Deficit)	428,892.88	173,387.04
<b>TOTAL NET POSITION</b>	<b>679,771.40</b>	<b>346,774.07</b>

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



**CORE EDUCATIONAL COOPERATIVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2018**

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	184,256.33	66,640.21	250,896.54
Due from Other Government		24,214.35	24,214.35
Prepaid Expenses	500.00		500.00
<b>TOTAL ASSETS</b>	<u>184,756.33</u>	<u>90,854.56</u>	<u>275,610.89</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts Payable		5,548.96	5,548.96
Contracts Payable		7,801.21	7,801.21
Payroll Deductions and Withholdings and Employer Matching Payable		1,064.87	1,064.87
<b>Total Liabilities</b>	<u>0.00</u>	<u>14,415.04</u>	<u>14,415.04</u>
Fund Balances:			
Nonspendable for Prepaid Expenses	500.00		500.00
Restricted:			
Special Education		76,439.52	76,439.52
Unassigned	184,256.33		184,256.33
<b>Total Fund Balances</b>	<u>184,756.33</u>	<u>76,439.52</u>	<u>261,195.85</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>184,756.33</u>	<u>90,854.56</u>	<u>275,610.89</u>

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, 2018**

Total Fund Balances - Governmental Funds	<u>261,195.85</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net component unit asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	<u>173,387.04</u>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>174,439.00</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>70,749.51</u>
Net Position - Governmental Activities	<u><u>679,771.40</u></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 BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Revenue from Local Sources:			
Other Revenue from Local Sources:			
Services Provided Other School Districts		1,591,048.64	1,591,048.64
Charges for Services	47,821.69		47,821.69
Other	20,000.00	1,280.15	21,280.15
Revenue from Federal Sources:			
Grants-in-Aid:			
Restricted Grants-in-Aid Received from Federal Government Through the State		63,188.02	63,188.02
<b>Total Revenue</b>	<b>67,821.69</b>	<b>1,655,516.81</b>	<b>1,723,338.50</b>
<b>Expenditures:</b>			
Support Services:			
Students:			
Guidance		65,764.12	65,764.12
Psychological		308,937.65	308,937.65
Speech Pathology		640,476.26	640,476.26
Student Therapy Services		274,735.90	274,735.90
Instructional Staff:			
Educational Media	4,851.10	11,933.75	16,784.85
General Administration:			
Board of Education		32,566.95	32,566.95
Executive Administration		111,128.04	111,128.04
School Administration:			
Financial Aids Administration	47,821.73		47,821.73
Business:			
Fiscal Services		59,606.35	59,606.35
Facilities Acquisition and Construction	6,000.00		6,000.00
Operation and Maintenance of Plant	23,680.27	31,507.42	55,187.69
Special Education:			
Other Special Education Costs		42,420.85	42,420.85
Capital Outlay	41,908.00		41,908.00
<b>Total Expenditures</b>	<b>124,261.10</b>	<b>1,579,077.29</b>	<b>1,703,338.39</b>
Excess of Revenue Over (Under) Expenditures	(56,439.41)	76,439.52	20,000.11
<b>Other Financing Sources:</b>			
Compensation for Loss of General Capital Assets	25,782.68		25,782.68
Total Other Financing Sources (Uses)	25,782.68	0.00	25,782.68
Net Change in Fund Balances	(30,656.73)	76,439.52	45,782.79
Fund Balance - Beginning	215,413.06	0.00	215,413.06
<b>FUND BALANCE - ENDING</b>	<b>184,756.33</b>	<b>76,439.52</b>	<b>261,195.85</b>

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, 2018**

Net Change in Fund Balances - Total Governmental Funds	<u>45,782.79</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>41,908.00</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>(20,212.00)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (pension expense)	<u>70,749.51</u>
Change in Net Position of Governmental Activities	<u><u>138,228.30</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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Cooperative is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Cooperative (primary government). The Cooperative may also be financially accountable for another organization if that organization is fiscally dependent on the Cooperative.

The Dial Virtual School of the Core Cooperative of Platte, South Dakota is a proprietary fund-type, discretely-presented component unit. The members of the Core Cooperative board and the Dial Corporation board comprise the Board of Directors of the Dial Virtual School. The Cooperative recruits and employs the management personnel and other workers. Separately issued financial statements of the Dial Virtual School may be obtained from: Core Educational Cooperative, P.O. Box 518, Platte, SD 57369.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through fees, intergovernmental revenues, and other non-exchange revenues. Discretely presented component units are legally separate organizations that meet criteria, as described in Note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by 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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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 two major categories: governmental and proprietary. 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 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 or enterprise 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 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 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.

Special Revenue Funds – 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 by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside with the member school districts. This fund is financed by grants and assessments by member school districts. This is 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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Basis of Accounting:**

## Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type 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. The revenues which are accrued at June 30, 2018 are grants and tuition fees.

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

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

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.

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

e. Capital Assets:

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

The accounting treatment 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 acquisition value on the date donated.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

The total June 30, 2018 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 appropriate governmental fund upon acquisition.

**f. Program Revenues:**

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

1. Charges for services – These arise from charges to customers, 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,

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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 places 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 distinguishes 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 (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Cooperative classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- 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 Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as prepaid expenses.

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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

Major Special Revenue Fund:	Revenue Source:
Special Education	Grant Revenue and Charges for Services Provided

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, 2018, the Cooperative did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

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

**Custodial Credit Risk – Deposits** – The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2018, the Cooperative's deposits in financial institutions were exposed to custodial credit risk as follows:

<u>Depository Name</u>	<u>Percent Under- collateralized</u>	<u>At-Risk Amount</u>
First Fidelity Bank	11.41%	\$ 45,004.88
Total Deposits Exposed to Custodial Credit Risk		\$ 45,004.88

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

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative's policy is to credit all income from 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, 2018, is as follows:

	Balance 07/01/2017	Increases	Decreases	Balance 06/30/2018
Primary Government:				
Governmental Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	153,163.00	41,908.00		195,071.00
Total, being depreciated	<u>153,163.00</u>	<u>41,908.00</u>	<u>0.00</u>	<u>195,071.00</u>
Less Accumulated Depreciation for:				
Machinery & Equipment	(420.00)	(20,212.00)		(20,632.00)
Total Accumulated Depreciation	<u>(420.00)</u>	<u>(20,212.00)</u>	<u>0.00</u>	<u>(20,632.00)</u>
Total Capital Assets, being depreciated, net	<u>152,743.00</u>	<u>21,696.00</u>	<u>0.00</u>	<u>174,439.00</u>
Governmental Activity Capital Assets, Net	<u>152,743.00</u>	<u>21,696.00</u>	<u>0.00</u>	<u>174,439.00</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Support Services	<u>\$ 20,212.00</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.



NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

6. DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

7. RESTRICTED NET POSITION

The following table shows the net position restricted for other purposes as shown on the Statement of Net Position:

<u>Purpose</u>	<u>Restricted By:</u>	<u>Amount</u>
Major Funds:		
Special Education	Law	\$ 76,439.52
Total Restricted Net Position		<u>\$ 76,439.52</u>

8. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent 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 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent 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.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> 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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent 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 year ended June 30, 2018 was \$70,749.51. Core Educational Cooperative joined the SDRS system as of July 1, 2017.

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

For the year ended June 30, 2018, the Cooperative recognized pension expense (reduction of pension expense) of \$(70,749.51). At June 30, 2018, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Cooperative contributions subsequent to the measurement date.	\$ 70,749.51	_____
TOTAL	<u>\$ 70,749.51</u>	<u>\$ -</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

\$70,749.51 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, 2019.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50 percent net of plan investment expense

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (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%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100%</u>	

Discount Rate:

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

Pension Plan Fiduciary Net Position:

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

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

9. 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	8.33%
Burke School District No. 26-2	8.33%
Colome Consolidated School District No. 59-3	8.33%
Corsica-Stickney School District No. 21-3	8.33%
Gregory School District No. 26-4	8.33%
Kimball School District No. 7-2	8.33%
Mt. Vernon School District No. 17-3	8.33%
Plankinton School District No. 1-1	8.33%
Platte-Geddes School District No. 11-5	8.33%
Wessington Springs School District No. 32-6	8.33%
White Lake School District No. 1-3	8.33%
Wolsey-Wessington School District No. 2-6	8.33%

10. 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, 2018, 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, 2018, 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.

11. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2018, the Cooperative was not involved in any significant litigation.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

12. 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.

The Core Educational Cooperative is in a joint venture with The Dial Corporation for the Dial Virtual School. The Dial Virtual School has been disclosed as a component unit on the Core Educational Cooperative's financial statements. The director of the Core Educational Cooperative is also the executive director of The Dial Corporation. The business manager of the Core Educational Cooperative is also the Administrative Assistant for the Dial Corporation. Profits are split 50/50 not to exceed \$20,000 per year to each organization. Part of the agreement states that the Core Educational Cooperative will hire the administrator and the Dial Virtual School will pay the Core Educational Cooperative for this service. These amounts will be reported as revenues and expenditures of the Core Educational Cooperative and also as expenses of the Dial Virtual School. The Core Educational Cooperative's equity interest in the Dial Virtual School is 50% and has been reported in the government-wide financial statements.

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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Other Revenue from Local Sources:				
Charges for Services	136,486.50	136,486.50	47,821.69	(88,664.81)
Other	0.00	0.00	20,000.00	20,000.00
Total Revenue	<u>136,486.50</u>	<u>136,486.50</u>	<u>67,821.69</u>	<u>(68,664.81)</u>
<b>Expenditures:</b>				
Instruction:				
Support Services:				
Instructional Staff:				
Educational Media	5,000.00	5,000.00	4,851.10	148.90
School Administration:				
Financial Aids Administration	55,486.50	55,486.50	47,821.73	7,664.77
Business:				
Facilities Acquisition and Construction	6,000.00	6,000.00	6,000.00	0.00
Operation and Maintenance of Plant	70,000.00	70,000.00	65,588.27	4,411.73
Total Expenditures	<u>136,486.50</u>	<u>136,486.50</u>	<u>124,261.10</u>	<u>12,225.40</u>
Excess of Revenue Over (Under) Expenditures	<u>0.00</u>	<u>0.00</u>	<u>(56,439.41)</u>	<u>(56,439.41)</u>
<b>Other Financing Sources:</b>				
Compensation for Loss of General Capital Assets	<u>0.00</u>	<u>22,729.42</u>	<u>25,782.68</u>	<u>3,053.26</u>
Net Change in Fund Balances	<u>0.00</u>	<u>22,729.42</u>	<u>(30,656.73)</u>	<u>(53,386.15)</u>
Fund Balance - Beginning	<u>215,413.06</u>	<u>215,413.06</u>	<u>215,413.06</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>215,413.06</u>	<u>238,142.48</u>	<u>184,756.33</u>	<u>(53,386.15)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**CORE EDUCATIONAL COOPERATIVE**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SPECIAL EDUCATION FUND**  
**For the Year Ended June 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Revenue from Local Sources:				
Other Revenue from Local Sources:				
Services Provided Other School Districts	1,589,790.00	1,589,790.00	1,591,048.64	1,258.64
Other	20,000.00	20,000.00	1,280.15	(18,719.85)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	25,000.00	72,420.00	63,188.02	(9,231.98)
<b>Total Revenue</b>	<b>1,634,790.00</b>	<b>1,682,210.00</b>	<b>1,655,516.81</b>	<b>(26,693.19)</b>
<b>Expenditures:</b>				
Support Services:				
Students:				
Guidance	77,295.00	77,295.00	65,764.12	11,530.88
Psychological	328,000.00	328,000.00	308,937.65	19,062.35
Speech Pathology	611,660.00	611,660.00	640,476.26	(28,816.26)
Student Therapy Services	293,760.00	293,760.00	274,735.90	19,024.10
Instructional Staff:				
Educational Media	10,000.00	10,000.00	11,933.75	(1,933.75)
General Administration:				
Board of Education	60,530.00	60,530.00	32,566.95	27,963.05
Executive Administration	143,295.00	143,295.00	111,128.04	32,166.96
Business:				
Fiscal Services	80,050.00	80,050.00	59,606.35	20,443.65
Operation and Maintenance of Plant	30,200.00	30,200.00	31,507.42	(1,307.42)
Special Education				
Other Special Education Costs	0.00	43,425.00	42,420.85	1,004.15
<b>Total Expenditures</b>	<b>1,634,790.00</b>	<b>1,678,215.00</b>	<b>1,579,077.29</b>	<b>99,137.71</b>
<b>Net Change in Fund Balances</b>	<b>0.00</b>	<b>3,995.00</b>	<b>76,439.52</b>	<b>72,444.52</b>
Fund Balance - Beginning	0.00	0.00	0.00	0.00
<b>FUND BALANCE - ENDING</b>	<b>0.00</b>	<b>3,995.00</b>	<b>76,439.52</b>	<b>72,444.52</b>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2018

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/Student Transportation function of government, along with all other current Student Transportation related expenditures.



REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE COOPERATIVE CONTRIBUTIONS

South Dakota Retirement System

Last Fiscal Year

	<u>2018</u>
Contractually required contribution	\$ 70,750
Contributions in relation to the contractually required contribution	<u>\$ 70,750</u>
Contribution deficiency (excess)	<u>\$ -</u>
Cooperative's covered-employee payroll	\$ 1,179,160
Contributions as a percentage of covered-employee payroll	6.0%

