

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
COOPERATIVE BOARD MEMBERS AND OFFICIAL NEWSPAPER
June 30, 2015

Member School Districts

Arlington School District No. 38-1
Britton-Hecla School District No. 45-4
Castlewood School District No. 28-1
Clark School District No. 12-2
De Smet School District No. 38-2
Deubrook School District No. 5-6
Deuel School District No. 19-4
Elkton School District No. 5-3
Enemy Swim Day School
Estelline School District No. 28-2
Florence School District No. 14-1
Grant-Deuel School District No. 25-3
Hamlin School District No. 28-3
Henry School District No. 14-2
Iroquois School District No. 02-3
Lake Preston School District No. 38-3
Rosholt School District No. 54-4
Sioux Valley School District No. 5-5
Summit School District No. 54-6
Waubay School District No. 18-3
Waverly School District No. 14-5
Webster Area School District No. 18-5
Willow Lake School District No. 12-3
Wilmot School District No. 54-7

Board of Directors –
Board Members from
School Districts

Martin Murphy
Cindy Olson
Harry Boner
Trudi Gaikowski
Norman Koehlmoos
Carie Knutson
Debbe Koenecke, President
Donna Bumann
Lois Kampeska
Ron Gorder
Tracy Hlavacek
John Tol, Vice President
Joe Homola
David Fuller
Greg Bich
Joyce Carlson
Hailey Peterson
Gloria Koerlin
Corrie Quale
Sandy Hinze
Jeff Buchholz
Jamie Reetz
Paula Warkenthien
Denise Lutkemeier

Director:

Gerald Aberle

Business Managers:

Brice Christensen

Official Newspaper:

Watertown Public Opinion

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WILLIAM NEALE & CO., P.C.

Certified Public Accountants

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

Cooperative Board
Northeast Educational Services Cooperative No. 28-201
Hamlin County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2015 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 October 16, 2015. The report on the governmental activities was qualified because the Cooperative did not record the other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets) in the financial statements.

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 and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-01 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 finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. 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.

William Neale & Co., P.C.

Watertown, South Dakota
October 16, 2015



WILLIAM NEALE & CO., P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Cooperative Board
Northeast Educational Services Cooperative No. 28-201
Hamlin County, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2015. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Northeast Educational Services Cooperative No. 28-201, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
October 16, 2015

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2015

PRIOR AUDIT FINDINGS

2014-01

Finding: A material weakness was reported for a lack of segregation of duties over the revenue function. The finding for a lack of segregation of duties over the revenue function has not been corrected and has been restated as current audit finding number 2015-01.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

A. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

Financial Statements

1. An unmodified opinion was issued on the financial statements of the General Fund, Special Education Fund, and the aggregate remaining fund information. A qualified opinion was issued on the financial statements of the governmental activities because the Cooperative did not record the other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets) in the financial statements.
2. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties over the revenue function as discussed in finding number 2015-01.
3. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

4. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
5. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
6. The federal awards tested as major programs was the Special Education Cluster which includes the Special Education - Grants to States (84.027) and Special Education - Preschool Grants (84.173).
7. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
8. The Northeast Educational Services Cooperative No. 28-201 did not qualify as a low-risk entity.

B. CURRENT FEDERAL AUDIT FINDINGS

There are no written current federal compliance audit findings to report.

C. CURRENT OTHER AUDIT FINDINGS

2015-01

Finding: A material weakness was reported for a lack of segregation of duties over the revenue function resulting in decreased reliability of reported financial data and increased potential for loss of public assets.

Analysis: The lack of segregation of duties over the revenue function results in inadequate controls over financial reporting that could adversely affect the Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: We recommend that the school board be cognizant of this lack of segregation of duties over the revenue function and attempt to provide compensating internal controls whenever and wherever possible and practical.

Response: The Cooperative board has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The Cooperative is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical.

INDEPENDENT AUDITOR'S REPORT

Cooperative Board
 Northeast Educational Services Cooperative No. 28-201
 Hamlin County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Education Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

The Cooperative did not record the other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets) in the financial statements, which is required by accounting principles generally accepted in the United States of America (USGAAP). The amount by which this departure would affect the assets, liabilities, and expense/expenditures in the financial statements is not reasonably determinable.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Northeast Educational Services Cooperative No. 28-201, South Dakota, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Special Education Fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard. As described in Note 7. to the financial statements, the Cooperative adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 7. to the financial statements, the Cooperative has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of the Cooperative's Proportionate Share of the Net Pension Asset, and Schedule of the Cooperative Contributions on pages 32 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2015 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.

William Neale & Co., P.C.

Watertown, South Dakota
October 16, 2015

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 812,018.34
Savings Certificates	76,244.89
Other Assets	480,154.34
Net Pension Asset	976,209.12
Capital Assets:	
Land, Improvements & Construction in Progress	1,451.00
Other Capital Assets, Net of Depreciation	289,642.90
Total Assets	2,635,720.59
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related Deferred Outflows	859,186.51
LIABILITIES :	
Accounts Payable	85,557.00
Other Current Liabilities	229,893.09
Unearned Revenue	183,293.72
Total Liabilities	498,743.81
DEFERRED INFLOWS OF RESOURCES:	
Pension Related Deferred Inflows	1,130,614.73
NET POSITION:	
Net Investment in Capital Assets	291,093.90
Restricted for:	
Special Education	749,380.01
SDRS Pension Purposes	704,780.90
Unrestricted	120,293.75
Total Net Position	\$ 1,865,548.56

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2015

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ 178,769.95	\$ 633,248.39	\$ 812,018.34
Savings Certificates	-	76,244.89	76,244.89
Accounts Receivable, Net	44,543.13	6,734.04	51,277.17
Due from Other Governments	68,328.01	360,215.00	428,543.01
Interest Receivable	-	334.16	334.16
TOTAL ASSETS	<u>\$ 291,641.09</u>	<u>\$ 1,076,776.48</u>	<u>\$ 1,368,417.57</u>
LIABILITIES:			
Accounts Payable	\$ 14,138.66	\$ 71,418.34	\$ 85,557.00
Contracts Payable	-	201,222.08	201,222.08
Payroll Deductions and Withholdings and Employer Matching Payable	-	28,671.01	28,671.01
Unearned Revenue	<u>157,208.68</u>	<u>26,085.04</u>	<u>183,293.72</u>
Total Liabilities	<u>171,347.34</u>	<u>327,396.47</u>	<u>498,743.81</u>
FUND BALANCES:			
Restricted			
Special Education	-	749,380.01	749,380.01
Assigned			
Unemployment	830.54	-	830.54
Unassigned	<u>119,463.21</u>	<u>-</u>	<u>119,463.21</u>
Total Fund Balances	<u>120,293.75</u>	<u>749,380.01</u>	<u>869,673.76</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 291,641.09</u>	<u>\$ 1,076,776.48</u>	<u>\$ 1,368,417.57</u>

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
 June 30, 2015

Total Fund Balances - Governmental Funds			\$ 869,673.76
Amounts reported for governmental activities in the statement of net position are different because:			
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.			976,209.12
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.			859,186.51
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	Cost of capital assets	602,490.20	
	Accumulated depreciation	<u>(311,396.30)</u>	
	Net		291,093.90
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.			<u>(1,130,614.73)</u>
Net Position - Governmental Activities			<u>\$ 1,865,548.56</u>

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Special Education Fund	Total Governmental Funds
Revenues:			
Tuition and Fees:			
Regular Day School Tuition	\$ -	\$ 483,583.61	\$ 483,583.61
Earnings on Investments and Deposits	399.38	2,444.65	2,844.03
Other Revenue from Local Sources:			
Services Provided Other LEAs	5,782.44	-	5,782.44
Other	321,971.83	964,565.15	1,286,536.98
Revenue from State Sources:			
Grants-in-Aid:			
Unrestricted Grants-in-Aid	-	121,465.39	121,465.39
Other State Revenue	128,022.27	71,515.53	199,537.80
Revenue from Federal Sources:			
Grants-in-Aid:			
Restricted Grants-in-Aid Received from Federal Government Through the State	<u>106,502.00</u>	<u>1,640,809.00</u>	<u>1,747,311.00</u>
Total Revenues	<u>562,677.92</u>	<u>3,284,383.33</u>	<u>3,847,061.25</u>
Expenditures:			
Current:			
Instruction:			
Regular Programs:			
Elementary	56,510.92	-	56,510.92
Special Programs:			
Programs for Special Education	-	768,943.38	768,943.38
Support Services:			
Pupils:			
Guidance	-	29,506.62	29,506.62
Psychological	-	438,008.63	438,008.63
Speech Pathology	-	914,009.72	914,009.72
Student Therapy	-	719,381.38	719,381.38
Instructional Staff:			
Improvement of Instruction	238,806.71	125,441.87	364,248.58
Educational Media	2,694.36	29,191.42	31,885.78
General Administration:			
Board of Education	6,038.71	65,425.45	71,464.16
Executive Administration	18,664.55	65,109.51	83,774.06
Business:			
Fiscal Services	6,677.46	72,345.93	79,023.39
Operation and Maintenance of Plant	4,406.71	22,981.13	27,387.84
Operation and Maintenance of Vehicles	104,097.69	-	104,097.69
Pupil Transportation	4,684.00	-	4,684.00

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Special Education Fund	Total Governmental Funds
Special Education: Administrative Costs	-	137,108.18	137,108.18
Capital Outlay	<u>61,000.00</u>	<u>-</u>	<u>61,000.00</u>
Total Expenditures	<u>503,581.11</u>	<u>3,387,453.22</u>	<u>3,891,034.33</u>
Excess of Revenues Over (Under) Expenditures	<u>59,096.81</u>	<u>(103,069.89)</u>	<u>(43,973.08)</u>
Other Financing Sources (Uses):			
Sale of Surplus Property	5,815.00	-	5,815.00
Compensation for Loss of Capital Assets	<u>2,269.30</u>	<u>-</u>	<u>2,269.30</u>
Total Other Financing Sources (Uses)	<u>8,084.30</u>	<u>-</u>	<u>8,084.30</u>
Net Change in Fund Balance	67,181.11	(103,069.89)	(35,888.78)
Fund Balance - Beginning	<u>53,112.64</u>	<u>852,449.90</u>	<u>905,562.54</u>
FUND BALANCE - ENDING	<u>\$ 120,293.75</u>	<u>\$ 749,380.01</u>	<u>\$ 869,673.76</u>

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ (35,888.78)

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

<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	<p>Capital Outlays Depreciation Expense</p>	<p>61,000.00 <u>(50,502.96)</u></p>	<p>10,497.04</p>
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<p>In the statement of activities, losses (\$5,965.00) on the disposal of capital assets are reported, whereas, in the governmental funds, the proceeds (\$5,815.00) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.</p>			<p>(11,780.00)</p>
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<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (e.g., pension revenue)</p>			<p>41,234.67</p>
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<p>Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.</p>			<p><u>139,345.81</u></p>
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<p>Change in Net Position of Governmental Activities</p>			<p><u>\$ 143,408.74</u></p>
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The notes to the financial statements are an integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2015

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>12,196.97</u>
 Total Assets	 <u>12,196.97</u>
 LIABILITIES:	
Amounts Held for Others	<u>12,196.97</u>
 Total Liabilities	 <u>12,196.97</u>
 NET POSITION	 <u>\$ -</u>

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of Northeast Educational Services Cooperative No. 28-201 (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 Cooperative does not have any component units.

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

Arlington School District No. 38-1	3.93%
Britton-Hecla School District No. 45-4	6.77%
Castlewood School District No. 28-1	3.66%
Clark School District No. 12-2	5.07%
De Smet School District No. 38-2	4.39%
Deubrook School District No. 5-6	4.81%
Deuel School District No. 19-4	6.85%
Elkton School District No. 5-3	4.42%
Enemy Swim Day School	2.42%
Estelline School District No. 28-2	3.57%
Florence School District No. 14-1	2.88%
Grant-Deuel School District No. 25-3	1.47%
Hamlin School District No. 28-3	9.97%
Henry School District No. 14-2	2.40%
Iroquois School District No. 02-3	3.03%
Lake Preston School District No. 38-3	2.29%
Rosholt School District No. 54-4	2.93%
Sioux Valley School District No. 5-5	8.09%
Summit School District No. 54-6	2.28%
Waubay School District No. 18-3	2.33%
Waverly School District No. 14-5	2.97%

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Webster Area School District No. 18-5	7.42%
Willow Lake School District No. 12-3	3.15%
Wilmot School District No. 54-7	2.88%

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, 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 two major categories: governmental and fiduciary. 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 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 and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

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 within the member school districts. This fund is financed by grants and assessments charged to the member school districts. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds.

Agency Funds – agency funds are used to account for resources held by the Cooperative in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The Cooperative maintains agency funds for the purpose of accounting for the assets held in a trustee capacity for employees and member school districts.

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the Cooperative is 60 days. The revenues which are accrued at June 30, 2015 are the amounts due from the participating member school districts, State, and Federal government through the State. 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.

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

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified in order to minimize the grossing-up effect on assets and liabilities within the governmental activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities column.

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 used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

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

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

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 1,000	N/A	N/A
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-10 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, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components:

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

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

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the Board of Directors, 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 Board of Directors.

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.

j. Pensions

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

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:

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

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

Credit Risk

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

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, 2015, the Cooperative's deposits in financial institutions were not exposed to any custodial credit risk.

Custodial Credit Risk - Investments

The risk that, in the event of the failure of the counterparty to a transaction, the Cooperative will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2015, the Cooperative did not have any investments.

Interest Rate Risk

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

Assignment of Investment Income

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

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. All receivables are considered collectible; therefore, no allowances for estimated uncollectibles have been established.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

4. INVENTORY

Inventory held for consumption is stated at cost. The cost valuation method is first in, first out (FIFO).

In the government-wide financial statements and the fund financial statements, the inventory was recorded using the consumption method.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance 7/1/14	Increases	Decreases	Balance 6/30/15
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,451.00	\$ -	\$ -	\$ 1,451.00
Capital assets, being depreciated:				
Buildings	58,849.00	-	-	58,849.00
Machinery and Equipment	565,280.20	61,000.00	84,090.00	542,190.20
Total	624,129.20	61,000.00	84,090.00	601,039.20
Less: accumulated depreciation for:				
Buildings	10,592.82	1,176.98	-	11,769.80
Machinery and Equipment	322,610.52	49,325.98	72,310.00	299,626.50
Total accumulated depreciation	333,203.34	50,502.96	72,310.00	311,396.30
Total capital assets, being depreciated, net	290,925.86	10,497.04	11,780.00	289,642.90
Governmental activity capital assets, net	\$ 292,376.86	\$ 10,497.04	\$ 11,780.00	\$ 291,093.90

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Support Services	\$ 50,502.96
Total depreciation expense – governmental activities	<u>\$ 50,502.96</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

6. RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2015 was as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Special Education	Law	\$ 749,380.01
SDRS Pension Purposes		<u>704,780.90</u>
		<u>\$1,454,160.91</u>

7. PRIOR PERIOD ADJUSTMENTS

The Cooperative implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of July 1, 2014 as follows:

Net Position July 1, 2014, as previously reported	\$ 1,197,939.40
Restatement for pension accounting:	
Net Pension Asset	382,030.92
Pension related Deferred Outflows of Resources	<u>142,169.50</u>
Net Position July 1, 2014, as restated	<u>\$ 1,722,139.82</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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, PO 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.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
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 June 30, 2015

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 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 years ended June 30, 2015, 2014, and 2013 were \$139,345.81, \$142,169.50, and \$149,335.83, respectively, equal to the required contributions each year.

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

At June 30, 2014, SDRS is 107% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Cooperative as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 14,373,045.40
Less proportionate share of total pension liability	<u>13,396,836.28</u>
Proportionate share of net pension asset	<u>\$ 976,209.12</u>

At June 30 2015, the Cooperative reported an asset of \$976,209.12 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the Cooperative's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Cooperative's proportion was .001354982%.

For the year ended June 30, 2015, the Cooperative recognized pension revenue of \$41,234.71. At June 30, 2015 the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 82,600.49	\$ -
Changes in assumption.	637,240.21	-
Net difference between projected and actual earnings on pension plan investments.	-	1,130,614.73
Changes in proportion and difference between District contributions and proportionate share of contributions.	-	-
Cooperative contributions subsequent to the measurement date.	<u>139,345.81</u>	<u>-</u>
TOTAL	<u>\$ 859,186.51</u>	<u>\$ 1,130,614.73</u>

\$139,345.81 reported as deferred outflows 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:

2016	\$ 77,570.86
2017	77,570.86
2018	77,570.86
2019	<u>178,061.45</u>
TOTAL	<u>\$ 410,774.03</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

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, 2014 (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	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	2.0%	0.8%

Total	100%	
	=====	

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of asset to changes in the discount rate:

The following presents the Cooperative's proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Cooperative's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Cooperative's proportionate share of the net pension liability (asset)	\$ 964,678.22	(\$ 976,209.12)	(\$2,559,205.32)

Pension Plan Fiduciary Net Position:

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2015

9. 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, 2015, the Cooperative managed its risks as follows:

Employee Health Insurance:

The Cooperative participates, with several other educational units and related organizations in South Dakota, in the South Dakota Schools' Group Insurance Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for all participants. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from its participants.

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

Liability Insurance:

The Cooperative joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Cooperative's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the Cooperative. The Cooperative pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage. The Cooperative pays an annual premium to the pool to provide coverage for general liability, automobile liability and physical damage, public officials' liability, educators' legal liability and property.

The agreement with the ASBSD-PLF provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit.

The Cooperative carries the following deductibles for the insurance coverages:

General Liability	\$ -
Government Officials	1,000
Auto Liability	-
Auto Damage	500
Building & Contents	500
Boiler & Equipment	5,000
Educators Legal Liability	10,000/5,000

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

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

Worker's Compensation:

The Cooperative participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Cooperative's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Cooperative pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The Cooperative may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

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

Unemployment Benefits:

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

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

During the year ended June 30, 2015, no claims for unemployment benefits were paid. At June 30, 2015, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

10. LITIGATION

At June 30, 2015, the Cooperative was not involved in any litigation.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
 NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 GENERAL FUND
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Earnings on Investments and Deposits	\$ 300.00	\$ 300.00	\$ 399.38	\$ 99.38
Other Revenue from Local Sources:				
Services Provided Other LEAs	95,473.98	95,473.98	5,782.44	(89,691.54)
Other	339,473.14	339,473.14	321,971.83	(17,501.31)
Revenue from State Sources:				
Other State Revenue	166,928.10	166,928.10	128,022.27	(38,905.83)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in Aid Received from Federal Government through the State	144,955.34	144,955.34	106,502.00	(38,453.34)
Total Revenues	<u>747,130.56</u>	<u>747,130.56</u>	<u>562,677.92</u>	<u>(184,452.64)</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	59,415.74	59,415.74	56,510.92	2,904.82
Support Services:				
Instructional Staff:				
Improvement of Instruction	407,357.42	407,357.42	238,806.71	168,550.71
Educational Media	3,654.73	3,654.73	2,694.36	960.37
General Administration:				
Board of Education	6,418.27	6,418.27	6,038.71	379.56
Executive Administration	25,040.12	25,040.12	18,664.55	6,375.57
Business:				
Fiscal Services	7,365.63	7,365.63	6,677.46	688.17
Operation and Maintenance of Plant	6,964.65	6,964.65	4,406.71	2,557.94
Operation and Maintenance of Vehicles	220,914.00	220,914.00	165,097.69	55,816.31
Pupil Transportation	10,000.00	10,000.00	4,684.00	5,316.00
Total Expenditures	<u>747,130.56</u>	<u>747,130.56</u>	<u>503,581.11</u>	<u>243,549.45</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>59,096.81</u>	<u>59,096.81</u>

REQUIRED SUPPLEMENTARY INFORMATION
 NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 GENERAL FUND
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Other Financing Sources (Uses):				
Sale of Surplus Property	-	-	5,815.00	5,815.00
Compensation for Loss of Capital Assets	-	-	2,269.30	2,269.30
Total Other Financing Sources (Uses)	-	-	8,084.30	8,084.30
 Net Change in Fund Balances	-	-	67,181.11	67,181.11
 Fund Balance - Beginning	53,112.64	53,112.64	53,112.64	-
 FUND BALANCE - ENDING	<u>\$ 53,112.64</u>	<u>\$ 53,112.64</u>	<u>\$ 120,293.75</u>	<u>\$ 67,181.11</u>

REQUIRED SUPPLEMENTARY INFORMATION
 NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 SPECIAL EDUCATION FUND
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Tuition and Fees:				
Regular Tuition	\$ 549,713.43	\$ 549,713.43	\$ 483,583.61	\$ (66,129.82)
Earnings on Investments and Deposits	3,000.00	3,000.00	2,444.65	(555.35)
Other Revenue from Local Sources:				
Other	957,837.14	957,837.14	964,565.15	6,728.01
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	141,385.74	141,385.74	121,465.39	(19,920.35)
Other State Revenue	54,500.00	54,500.00	71,515.53	17,015.53
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	<u>1,644,137.00</u>	<u>1,644,137.00</u>	<u>1,640,809.00</u>	<u>(3,328.00)</u>
Total Revenues	<u>3,350,573.31</u>	<u>3,350,573.31</u>	<u>3,284,383.33</u>	<u>(66,189.98)</u>
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	837,215.96	837,215.96	768,943.38	68,272.58
Support Services:				
Pupils:				
Guidance	31,024.20	31,024.20	29,506.62	1,517.58
Psychological	497,356.68	497,356.68	438,008.63	59,348.05
Speech Pathology	955,882.94	955,882.94	914,009.72	41,873.22
Student Therapy	754,264.03	754,264.03	719,381.38	34,882.65
Instructional Staff:				
Improvement of Instruction	146,659.10	146,659.10	125,441.87	21,217.23
Educational Media	39,596.42	39,596.42	29,191.42	10,405.00
General Administration:				
Board of Education	70,361.64	70,361.64	65,425.45	4,936.19
Executive Administration	239,035.41	239,035.41	65,109.51	173,925.90
Business:				
Fiscal Services	79,855.90	79,855.90	72,345.93	7,509.97
Operation and Maintenance of Plant	36,321.03	36,321.03	22,981.13	13,339.90

REQUIRED SUPPLEMENTARY INFORMATION
 NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 SPECIAL EDUCATION FUND
 For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Special Education: Administrative Costs	<u>-</u>	<u>-</u>	<u>137,108.18</u>	<u>(137,108.18)</u>
Total Expenditures	<u>3,687,573.31</u>	<u>3,687,573.31</u>	<u>3,387,453.22</u>	<u>300,120.09</u>
Excess of Revenues Over (Under) Expenditures	<u>(337,000.00)</u>	<u>(337,000.00)</u>	<u>(103,069.89)</u>	<u>233,930.11</u>
Net Change in Fund Balances	<u>(337,000.00)</u>	<u>(337,000.00)</u>	<u>(103,069.89)</u>	<u>233,930.11</u>
Fund Balance - Beginning	<u>852,449.90</u>	<u>852,449.90</u>	<u>852,449.90</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 515,449.90</u>	<u>\$ 515,449.90</u>	<u>\$ 749,380.01</u>	<u>\$ 233,930.11</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

1. BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the financial statements prepared in conformity with USGAAP present capital outlay expenditures as a separate function.

2. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the school 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 school 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 school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district 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. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF THE COOPERATIVE'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
SOUTH DAKOTA RETIREMENT SYSTEM

	<u>6/30/2015</u>
Cooperative's proportion of the net pension asset	0.1354982%
Cooperative's proportionate share of net pension asset	\$ 976,209.12
Cooperative's covered-employee payroll	\$ 2,366,977.35
Cooperative's proportionate share of net pension asset as a percentage of its covered-employee payroll	41.24%
Plan fiduciary net position as a percentage of the total pension asset	107%

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF THE COOPERATIVE CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM

	<u>6/30/2015</u>
Contractually required contribution	\$ 139,345.81
Contributions in relation to the contractually required contribution	<u>139,345.81</u>
Contribution deficiency (excess)	<u>\$ -</u>
Cooperative's covered-employee payroll	\$ 2,322,423.15
Contributions as a percentage of covered-employee payroll	6.0%

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2014</u>
General Services Administration:			
Pass-Through the SD Federal Property Agency:			
Donation of Federal Surplus Personal Property (Note 4)	39.003	--	\$ <u>23.92</u>
US Department of Education:			
Pass-Through the SD Department of Education:			
Special Education Cluster:			
Special Education – Grants to States (Notes 2 & 3)	84.027	--	1,595,066.00
Special Education – Preschool Grants (Note 3)	84.173	--	<u>45,743.00</u>
Total for Special Education Cluster			<u>1,640,809.00</u>
Mathematics and Science Partnerships	84.366	--	<u>106,502.00</u>
Total US Department of Education			<u>1,747,311.00</u>
GRAND TOTAL			<u>\$1,747,334.92</u>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the cooperative and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: This represents a major federal financial assistance program.

Note 4: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the Cooperative. (Original acquisition cost is provided by Federal Surplus Property. It is not what the Cooperative actually paid for the item.)