

**OAHE SPECIAL EDUCATION COOPERATIVE**

**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2015**

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**COOPERATIVE OFFICIALS**  
**JUNE 30, 2015**

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Member Schools

Bowdle  
Eureka  
Edmunds Central  
Herreid  
Hoven  
Selby Area  
Smee

Governing Board

Jeff Oxner  
Mike Deurmier, President  
Kelly Schaible  
Holly Schumacher  
Cliff Keller, Vice President  
Tom Fiedler  
Patrick Hawk, Sr.

Alternates

Barry Stotz  
Corey Eberhart  
Robbi Fischer  
Troy Beck  
Eric Stuwe  
Steve Zabel  
Gladys Hawk

Director

Mary Austad

Business Manager

Lori Lutz

# OAHE SPECIAL EDUCATION COOPERATIVE

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# OAHE SPECIAL EDUCATION COOPERATIVE

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**KOHLMAN, BIERSCHBACH & ANDERSON, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

PARTNERS

WILLIAM J BACHMEIER, CPA  
ROY R FAUTH, CPA

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WITH OFFICE IN  
MILLER, SOUTH DAKOTA

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

Cooperative Board  
Oahe Special Education Cooperative  
Java, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe Special Education Cooperative, 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 January 5, 2016.

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 deficiency described in the accompanying Schedule of Current Audit Findings as item 2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Cooperative's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the 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.

January 5, 2016

*Kohlman, Dennis L. A. C., FCP*

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2015**

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PRIOR AUDIT FINDINGS:

2014-01

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity, which could result in errors not being found in a timely manner. This finding has not been corrected and is restated as current audit finding 2015-001.

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**JUNE 30, 2015**

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CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2015-001

Criteria

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

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity, which could result in errors not being found in a timely manner.

Effect

The Oahe Special Education Cooperative has a limited number of employees who prepare all records for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity. This is undesirable from an internal control viewpoint, and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation

We recommend the Governing Board take a more active role in their oversight of cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity.

Management's Response

The Oahe Special Education Cooperative has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash, revenues, receivables, budget, payables, private-purpose trust fund, indebtedness, and equity and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Cooperative Board President, Mike Deurmier, is responsible for the corrective action plan for this finding.

Closing Conference

The contents of this report were discussed with Lori Lutz, Business Manager, and Mary Austad, Director, on October 27, 2015.

**KOHLMAN, BIERSCHBACH & ANDERSON, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

PARTNERS

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WITH OFFICE IN  
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

Cooperative Board  
Oahe Special Education Cooperative  
Java, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe Special Education Cooperative, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Oahe

Special Education Cooperative as of June 30, 2015, 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.

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 6 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 and Pension Schedules on pages 25 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2016, 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.

*Kohler, Reinhold & A. Co., P.C.*

January 5, 2016

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	PRIMARY GOVERNMENT Governmental Activities
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 385,628
Other assets	13,921
Net pension asset	244,942
<b>TOTAL ASSETS</b>	<b>644,491</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension related deferred outflows	216,217
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>216,217</b>
<b>LIABILITIES:</b>	
Accounts payable	2,587
Other current liabilities	85,924
<b>TOTAL LIABILITIES</b>	<b>88,511</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Pension related deferred inflows	283,684
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>283,684</b>
<b>NET POSITION:</b>	
Restricted for:	
SDRS pension purposes	177,475
Unrestricted	311,038
<b>TOTAL NET POSITION</b>	<b>\$ 488,513</b>

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 380,869	\$ -	\$ 21,224	\$ (359,645)
Support services	<u>515,579</u>	<u>917,623</u>	<u>5,757</u>	<u>407,801</u>
Total Governmental Activities	<u>896,448</u>	<u>917,623</u>	<u>26,981</u>	<u>48,156</u>
Total Primary Government	<u>\$ 896,448</u>	<u>\$ 917,623</u>	<u>\$ 26,981</u>	<u>48,156</u>
General Revenues:				
Unrestricted investment earnings				742
Other general revenues				<u>831</u>
Total General Revenues				<u>1,573</u>
Change In Net Position				49,729
Net Position - Beginning				307,256
Prior Period Adjustment (Note 6)				<u>131,528</u>
Net Position - Ending				<u>\$ 488,513</u>

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2015**

	<u>General Fund</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 385,628
Due from other governments	5,311
Prepaid expenses	8,610
<b>TOTAL ASSETS</b>	<b>\$ 399,549</b>
<b>LIABILITIES AND FUND BALANCES:</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 2,587
Contracts payable	75,960
Payroll deductions and withholdings and employer matching payable	9,964
<b>TOTAL LIABILITIES</b>	<b>88,511</b>
<b>FUND BALANCES:</b>	
Nonspendable:	
Prepays	8,610
Assigned to:	
Next year's budget	33,134
Unassigned	269,294
<b>TOTAL FUND BALANCES</b>	<b>311,038</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 399,549</b>

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

**OAHE SPECIAL EDUCATION COOPERATIVE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

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Total Fund Balances - Governmental Funds	\$ 311,038
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.	244,942
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	216,217
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(283,684)</u>
Net Position - Governmental Activities	<u>\$ 488,513</u>

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>
REVENUES:	
Revenue from Local Sources:	
Earnings on investments and deposits	\$ 742
Other revenue from local sources:	
Services provided other LEA's	917,623
Other	831
Revenue from Federal Sources:	
Grants-in-aid:	
Restricted grants-in-aid received from federal government through the state	<u>16,635</u>
 TOTAL REVENUE	 <u>935,831</u>
 EXPENDITURES:	
Instruction:	
Special programs:	
Programs for special education	396,151
Support Services:	
Pupils:	
Psychological	66,200
Speech pathology	216,019
Student therapy services	88,151
Instructional staff:	
Improvement of instruction	8,219
General administration:	
Board of education	21,168
Executive administration	76,373
Business:	
Fiscal services	50,770
Operation and maintenance of plant	<u>8,998</u>
 TOTAL EXPENDITURES	 <u>932,049</u>
 NET CHANGE IN FUND BALANCES	 3,782
 FUND BALANCE - BEGINNING	 <u>307,256</u>
 FUND BALANCE - ENDING	 <u><u>\$ 311,038</u></u>

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

**OAHE SPECIAL EDUCATION COOPERATIVE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

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Net Change in Fund Balances - Total Governmental Funds	\$ 3,782
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (e.g., accrued interest revenue, pension revenue)	10,346
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>35,601</u>
Change in Net Position of Governmental Activities	<u>\$ 49,729</u>

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2015**

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	<u>Private-Purpose Trust Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$          549</u>
TOTAL ASSETS	<u><u>\$          549</u></u>
NET POSITION:	
Held in trust for scholarships	<u><u>\$          549</u></u>

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of Oahe Special Education Cooperative (Cooperative), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through service charges to members of the Cooperative, intergovernmental revenues, and other non-exchange revenues.

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

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into governmental and fiduciary categories. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least ten percent of the corresponding total for all governmental funds, or
2. Management has elected to classify one or more governmental funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 1 - (Continued)

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

Governmental Funds:

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

Fiduciary Funds:

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

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

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period.

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 1 - (Continued)

The accrual period for the Cooperative is 60 days. The revenues which are accrued at June 30, 2015, are the amounts due from state and federal government reimbursements 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 (if any) are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

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. Deposits:

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

e. Program Revenues:

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

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

f. Equity Classifications:

Government-Wide Financial Statements:

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

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or law and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 1 - (Continued)

Fund Financial Statements:

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

g. Application of Net Position:

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

h. Fund Balance Classification Policies and Procedures:

In accordance with 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 Governing Board.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

The Cooperative uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

i. Pensions:

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

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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**NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

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

Deposits - The Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

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

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

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

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

**NOTE 3 - RECEIVABLES AND PAYABLES**

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

**NOTE 4 - INVENTORY**

Inventory held for consumption is stated at cost.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 4 - (Continued)

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

No material inventories were on hand as of June 30, 2015, in the governmental funds.

NOTE 5 - OPERATING LEASES

Amounts paid for operating leases for the year ended June 30, 2015, totaled \$7,800.

In April 2015, a lease of office space was extended for a two year period beginning July 1, 2015, with minimum monthly rental payments of \$650 to be paid from the General Fund. The following are the remaining minimum payments on this operating lease with the two year extension as of June 30, 2015:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 7,800
2017	<u>7,800</u>
	<u><u>\$ 15,600</u></u>

NOTE 6 - PRIOR PERIOD ADJUSTMENT

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:

	<u>Governmental</u> <u>Activities</u>
Net Position July 1, 2014, as previously reported	\$ 307,256
Restatement for pension accounting:	
Net Pension Asset	95,856
Pension related Deferred Outflows of Resources	<u>35,672</u>
Net Position July 1, 2014, as restated	<u><u>\$ 438,784</u></u>

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 7 - PENSION PLAN

Plan Information:

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

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 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.

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

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 fiscal years ended June 30, 2015, 2014, and 2013, were \$35,601, \$35,672, and \$34,287, respectively, equal to the required contributions each year.

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 7 - (Continued)

Pension Liabilities (Assets), Pension Expense (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	\$ 3,606,356
Less proportionate share of total pension liability	<u>3,361,414</u>
Proportionate share of net pension liability (asset)	<u>\$ (244,942)</u>

At June 30, 2015, the Cooperative reported a liability (asset) of \$(244,942) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Cooperative's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Cooperative's proportion was 0.033998%, which is a decrease of 0.0001604% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Cooperative recognized pension expense (revenue) of \$(10,346). At June 30, 2015, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 20,725	\$ -
Changes in assumption	159,891	-
Net difference between projected and actual earnings on pension plan investments	-	283,684
District contributions subsequent to the measurement date	<u>35,601</u>	<u>-</u>
TOTAL	<u>\$ 216,217</u>	<u>\$ 283,684</u>

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 7 - (Continued)

\$35,601 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30:

2016	\$ 19,463
2017	19,463
2018	19,464
2019	<u>44,678</u>
Total	<u>\$ 103,068</u>

Actuarial Assumptions:

The total pension liability (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.

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:

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

NOTE 7 - (Continued)

<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	<u>2.0%</u>	0.8%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50 percent 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 will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Cooperative's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Cooperative's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 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)	\$242,048	\$(244,942)	\$ (642,133)

Pension Plan Fiduciary Net Position:

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

NOTE 8 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2015, the Cooperative managed its risks as follows:

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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NOTE 8 - (Continued)

Employee Health Insurance:

The Cooperative purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

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

Workers' Compensation:

The Cooperative purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

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

NOTE 9 - LITIGATION

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

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through January 5, 2016, the date on which the financial statements were available to be issued. Management has determined there are none.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS**  
**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Revenue from Local Sources:				
Earnings on investments and deposits	\$ 1,000	\$ 1,000	\$ 742	\$ (258)
Other revenue from local sources:				
Services provided other LEA's	926,495	944,995	917,623	(27,372)
Other	2,000	2,000	831	(1,169)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	<u>16,635</u>	<u>16,635</u>	<u>16,635</u>	<u>-</u>
<b>TOTAL REVENUE</b>	<u>946,130</u>	<u>964,630</u>	<u>935,831</u>	<u>(28,799)</u>
<b>EXPENDITURES:</b>				
Instruction:				
Special programs:				
Programs for special education	407,075	423,075	396,151	26,924
Support Services:				
Pupils:				
Psychological	71,707	71,707	66,200	5,507
Speech pathology	225,340	225,340	216,019	9,321
Student therapy services	110,489	110,489	88,151	22,338
Instructional staff:				
Improvement of instruction	5,700	8,200	8,219	(19)
General administration:				
Board of education	26,485	26,485	21,168	5,317
Executive administration	84,157	84,157	76,373	7,784
Business:				
Fiscal services	52,929	52,929	50,770	2,159
Operation and maintenance of plant	9,692	9,692	8,998	694
Nonprogrammed Charges:				
Insurance costs	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
<b>TOTAL EXPENDITURES</b>	<u>995,574</u>	<u>1,014,074</u>	<u>932,049</u>	<u>82,025</u>
<b>NET CHANGE IN FUND BALANCES</b>	(49,444)	(49,444)	3,782	53,226
<b>FUND BALANCE - BEGINNING</b>	<u>307,256</u>	<u>307,256</u>	<u>307,256</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 257,812</u>	<u>\$ 257,812</u>	<u>\$ 311,038</u>	<u>\$ 53,226</u>

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**  
**SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND**  
**JUNE 30, 2015**

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NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to the first regular board meeting in May of each year the governing board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the governing board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the governing board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the governing board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total Cooperative budget and may be transferred by resolution of the governing board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund.
11. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

**OAHE SPECIAL EDUCATION COOPERATIVE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**YEAR ENDED JUNE 30, 2015**

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	<u>2015</u>
Cooperative's proportion of the net pension liability (asset)	0.033998%
Cooperative's proportionate share of net pension liability (asset)	\$ (244,942)
Cooperative's covered-employee payroll	\$ 593,361
Cooperative's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.28%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107%

**OAHE SPECIAL EDUCATION COOPERATIVE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS  
LAST 10 FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 35,601	\$ 35,672	\$ 34,287	\$ 32,828	\$ 33,316	\$ 32,433	\$ 32,987	\$ 36,807	\$ 35,053	\$ 33,843
Contributions in relation to the contractually required contribution	<u>35,601</u>	<u>35,672</u>	<u>34,287</u>	<u>32,828</u>	<u>33,316</u>	<u>32,433</u>	<u>32,987</u>	<u>36,807</u>	<u>35,053</u>	<u>33,843</u>
Contribution deficiency (excess)	<u>\$ -</u>									
Cooperative's covered-employee payroll	\$ 593,361	\$ 594,530	\$ 571,450	\$ 547,136	\$ 555,268	\$ 540,547	\$ 549,777	\$ 613,511	\$ 584,211	\$ 564,048
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%