

**PRAIRIE LAKES
EDUCATIONAL COOPERATIVE**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015

PRAIRIE LAKES EDUCATIONAL COOPERATIVE
BOARD OF DIRECTORS
JUNE 30, 2015

Cooperative Board

Baltic School District No. 49-1	Darin Larson
Chester Area School District No. 39-1	Janet Park
Colman-Egan School District No. 50-5	MaryBeth Zwart
Dell Rapids School District No. 49-3	Matt Weiland
Flandreau School District No. 50-3	Tom Stenger
Garretson School District No. 49-4	Shannon Nordstrom
Howard School District No.48-3	Julie Schwader
Madison Central School District No. 39-2	Charlie Moore
Oldham-Ramona School District No. 39-5	Lance Hagemean
Rutland School District No. 39-4	Brooke Albertson
Tri-Valley School District No. 49-6	Dan Schlueter

Director

Larry Furney

Business Manager

Mitchell Brooks

PRAIRIE LAKES EDUCATIONAL COOPERATIVE
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QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairie Lakes Educational Cooperative
Lake County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Prairie Lakes Educational Cooperative, Lake County, South Dakota, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Prairie Lakes Educational Cooperative 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 the Notes 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 the Notes 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 the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Schedule of Proportionate Share of the Net Pension Liability (Asset), Schedule of the School District's Contributions, and Budgetary Comparison Schedules, as listed in the Table of Contents, 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 the 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 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 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.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants

September 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Prairie Lakes Educational Cooperative's annual financial report presents discussion and analysis of their financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with Prairie Lakes Educational Cooperative's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- An increase was seen in both revenues and expenditures during the fiscal year 2015.
- By the end of the fiscal year, net position increase by \$61,230.92 due to required changes in pension related deferred outflows.
- The Federal Perkins Grant makes up about 13% of the Cooperative's revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of these financial statements, including the portion of the Cooperative government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of Prairie Lakes Educational Cooperative's Government-wide and Fund Financial Statements		
	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire Organization government (except fiduciary funds)	The activities of the Cooperative that are not proprietary or fiduciary, such as elementary and high school education programs.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

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

The two government-wide statements report Prairie Lakes Educational Cooperative's net position and how it has changed. Net position – the difference between Prairie Lakes Educational Cooperative's assets and liabilities – is one way to measure Prairie Lakes Educational Cooperative's financial health or position.

- Increases or decreases in Prairie Lakes Educational Cooperative's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of Prairie Lakes Educational Cooperative you need to consider additional nonfinancial factors such as changes in programs and changes in funding.

The government-wide financial statements of Prairie Lakes Educational Cooperative are reported in one category:

- **Governmental Activities** - This category includes Prairie Lakes Educational Cooperative's basic instructional services, such as alternative education and support services (guidance, psychology, physical therapy, occupational therapy, improvement of instruction, administration, fiscal, and operation and maintenance of plant services). Tuition, contracts for services, state contracts and grants, federal grants and interest earnings finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about Prairie Lakes Educational Cooperative's general fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. South Dakota State Law requires fund accounting.

Prairie Lakes Educational Cooperative has one kind of fund:

- **Governmental Funds** – All of Prairie Lakes Educational Cooperative's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance Prairie Lakes Educational Cooperative's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationships (or differences) between them.

FINANCIAL ANALYSIS OF PRAIRIE LAKES EDUCATIONAL COOPERATIVE AS A WHOLE

Net Position

Prairie Lakes Educational Cooperative's combined statement of net position changed as follows:

TABLE A-1
PRAIRIE LAKES EDUCATIONAL COOPERATIVE
STATEMENT OF NET POSITION

	Primary Government			
	Governmental Activities		Total	
	FY2014	FY2015	FY2014	FY2015
Current and Other Assets	\$ 119,442.70	\$ 233,217.44	\$ 119,442.70	\$ 233,217.44
Total Assets	119,442.70	233,217.44	119,442.70	233,217.44
Deferred Outflows of Resources		74,677.60		74,677.60
Other Liabilities	\$ 65,646.81	\$ 94,406.65	\$ 65,646.81	\$ 94,406.65
Total Liabilities	65,646.81	94,406.65	65,646.81	94,406.65
Deferred Inflows of Resources		98,461.58		98,461.58
Net Position:				
Permanently Restricted		61,230.92		61,230.92
Unrestricted	53,795.89	53,795.89	53,795.89	53,795.89
Total Net Position	\$ 53,795.89	\$ 115,026.81	\$ 53,795.89	\$ 115,026.81
Increase (Decrease) in Net Position		61,230.92		61,230.92
Beginning Net Position	53,795.89	53,795.89	53,795.89	53,795.89
Ending Net Position	\$ 53,795.89	\$ 115,026.81	\$ 53,795.89	\$ 115,026.81
Percentage of Increase (Decrease) in Net Position	0.00%	113.82%	0.00%	113.82%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. No long-term liabilities of the Prairie Lakes Educational Cooperative have been reported. The difference between Prairie Lakes Educational Cooperative's assets and liabilities is its net position.

Changes in Net Position

Table A-2 considers the operations of the governmental and business-type activities.

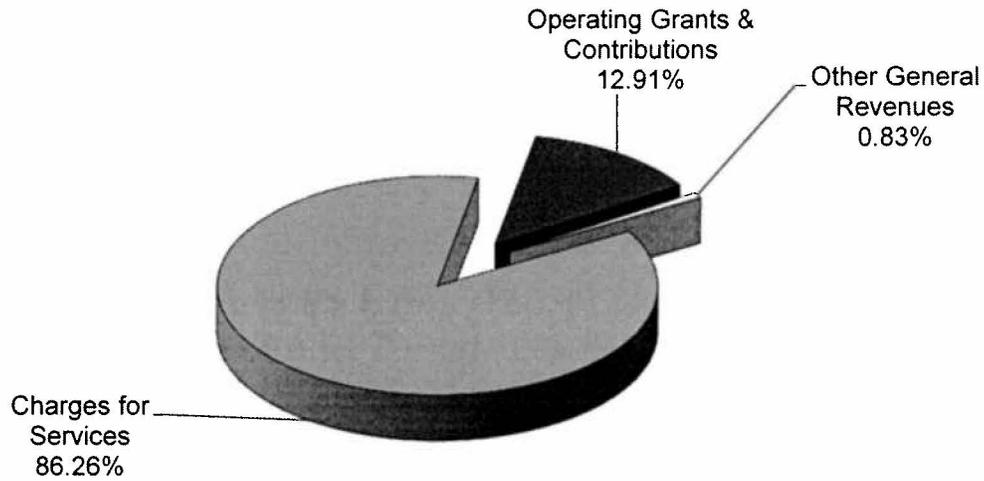
**TABLE A-2
PRAIRIE LAKES EDUCATIONAL COOPERATIVE
Changes in Net Position**

	Total Governmental Activities		Total	
	FY2014	FY2015	FY2014	FY2015
Revenues				
Program Revenues				
Charges for Services	\$ 365,238.21	\$ 376,812.81	\$ 365,238.21	\$ 376,812.81
Operating Grants and Contributions	52,979.00	56,380.00	52,979.00	56,380.00
Other General Revenue		3,616.08		3,616.08
Total Revenues	418,217.21	436,808.89	418,217.21	436,808.89
Expenses				
Support Services	418,217.21	421,228.81	418,217.21	421,228.81
Total Expenses	418,217.21	421,228.81	418,217.21	421,228.81
Increase (Decrease) in Net Position	\$	\$ 15,580.08	\$	\$ 15,580.08
Prior Period Adjustment		45,650.84		45,650.84
NET POSITION - ENDING	\$ 53,795.89	\$ 115,026.81	\$ 53,795.89	\$ 115,026.81

The Cooperative's revenues totaled \$436,808.89. (See Table A-2.) Approximately 13% of the Cooperative's revenue comes from restricted grants, with another 87% coming from charges for services. (See Figure A-3).

Figure A-3

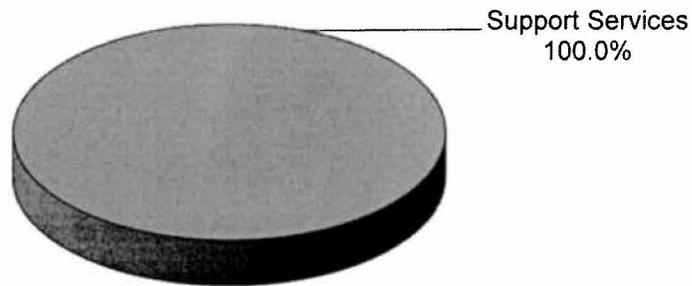
Prairie Lakes Educational Cooperative Sources of Revenues for FY2015



The total cost of all programs and services was \$421,228.81. The Cooperative's expenses cover support services. (See Figure A-4).

Figure A-4

Prairie Lakes Educational Cooperative Functional Expenses for FY2015



FINANCIAL ANALYSIS OF PRAIRIE LAKES EDUCATIONAL COOPERATIVE'S FUNDS

The General Fund remained level for the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Board did not supplement the budget. Revenues and Expenditures remained within acceptable levels of the original budget amounts.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Prairie Lakes Educational Cooperative does not have the authority to tax or bond. Prairie Lakes Educational Cooperative is also not eligible for state aid with the current formula. The overall budget for fiscal year 2016 will see an increase of \$18,511 (4.06%).

CONTACTING PRAIRIE LAKES EDUCATIONAL COOPERATIVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of Prairie Lakes Educational Cooperative's finances and to demonstrate Prairie Lakes Educational Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact Prairie Lakes Educational Cooperative's Business Office, 605-256-7710, 800 Northeast 9th Street, Madison, SD 57042.

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 58,533.85
Due from Other Governments	89,668.69
Net Pension Asset	<u>85,014.90</u>
TOTAL ASSETS	<u>233,217.44</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	<u>71,478.60</u>
 LIABILITIES :	
Accounts Payable	51,485.46
Accrued Wages & Benefits	<u>42,921.19</u>
TOTAL LIABILITIES	<u>94,406.65</u>
 DEFERRED INFLOWS OF RESOURCES:	
Pension Related	<u>98,461.58</u>
 NET POSITION:	
SDRS Pension Fund Restricted	58,031.92
Unrestricted	<u>53,795.89</u>
TOTAL NET POSITION	<u><u>\$ 111,827.81</u></u>

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

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
STATEMENT OF ACTIVITIES
FOR THE 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	Total Governmental Activities
Primary Government: Governmental Activities: Support Services	\$ 421,228.81	\$ 376,812.81	\$ 56,380.00	\$ 11,964.00
Total Governmental Activities	421,228.81	376,812.81	56,380.00	11,964.00
Total Primary Government	\$ 421,228.81	\$ 376,812.81	\$ 56,380.00	11,964.00
General Revenues:				
				3,616.00
				15,580.00
				53,795.89
				45,650.84
				99,446.73
				\$ 115,026.73

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

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS:		
Cash and Cash Equivalents	\$ 58,533.85	\$ 58,533.85
Due from Other Governments	<u>89,668.69</u>	<u>89,668.69</u>
TOTAL ASSETS	<u>\$ 148,202.54</u>	<u>\$ 148,202.54</u>
 LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	\$ 51,485.46	\$ 51,485.46
Contracts Payable	37,148.74	37,148.74
Payroll Deductions and Withholdings and Employer Matching Payable	<u>5,772.45</u>	<u>5,772.45</u>
Total Liabilities	<u>94,406.65</u>	<u>94,406.65</u>
 Fund Balances:		
Unassigned	<u>53,795.89</u>	<u>53,795.89</u>
Total Fund Balances	<u>53,795.89</u>	<u>53,795.89</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 148,202.54</u>	 <u>\$ 148,202.54</u>

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

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds	\$ 53,795.89
Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	85,014.90
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	71,478.60
Pension related deferred inflows are components of pension liability and therefore are not reported in the funds	<u>(98,461.58)</u>
Net Position - Governmental Funds	<u>\$ 111,827.81</u>

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

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Other Revenue from Local Sources:		
Services Provided Other LEAs	\$ 376,812.81	\$ 376,812.81
Other	25.00	25.00
Revenue from Federal Sources:		
Grants-in-Aid:		
Federal Government Through the State	<u>56,380.00</u>	<u>56,380.00</u>
Total Revenue	<u>433,217.81</u>	<u>433,217.81</u>
Expenditures:		
Support Services:		
Pupils:		
Psychological	300,229.67	300,229.67
Support Services - General Administration:		
Executive Administration	64,796.66	64,796.66
Support Services - Business:		
Receiving and Disbursing Funds Services	<u>68,191.48</u>	<u>68,191.48</u>
Total Expenditures	<u>433,217.81</u>	<u>433,217.81</u>
Net Change in Fund Balance	0.00	0.00
Fund Balance - July 1, 2014	<u>53,795.89</u>	<u>53,795.89</u>
FUND BALANCE - JUNE 30, 2015	<u>\$ 53,795.89</u>	<u>\$ 53,795.89</u>

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

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$ 0.00
Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.	<u>15,580.00</u>
Change in Net Position of Governmental Activities	<u>\$ 15,580.00</u>

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

PRAIRIE LAKES EDUCATIONAL COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of Prairie Lakes Educational 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.

The Prairie Lakes Educational Cooperative is a cooperative service unit (Co-op) of school districts established in 1993. The member school districts' equity interest in the joint venture is based on assessment ratios of full membership schools. The full member school districts' equity interest in the joint venture is as follows:

Baltic School District 49-1	7.95%
Chester School District 39-1	5.77%
Coleman-Egan School District 50-5	5.27%
Dell-Rapids School District 49-3	15.09%
Flandreau School District 50-3	14.52%
Garretson School District 49-4	6.61%
Howard School District 48-3	8.61%
Madison Central School District 39-2	15.47%
Oldham-Ramona School District 39-5	3.45%
Rutland School District 39-4	3.07%
Tri-Valley School District 49-6	14.19%

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

The funds included in this report are controlled by or dependent upon the Cooperative's board of directors.

The accounting policies of the Cooperative conform to generally accepted accounting principles.

The Cooperative contracted with Madison Central School District to provide fiscal management services beginning July 1, 2004. The services include payroll, accounts payable, assessment of member school districts for their cost share and preparation of financial statements.

On July 1, 2014, the Cooperative entered into an agreement to pay for support services from Dakota State University. This agreement included payment of total annual fees of \$29,200 for secretarial support and administration. The term of this contract ended June 30, 2015.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or 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 three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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:

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.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, the 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.

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for Prairie Lakes Educational Cooperative, the length of that cycle is 60 days. The revenues, which were accrued at June 30, 2015, are amounts due from member school districts.

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 inflows of resources 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.

d. Deposits and Investments

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

e. 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.

f. Equity Classifications

Government-wide Financial Statements:

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

1. Restricted Net Position – Consists of net position with constraints placed on its 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.
2. Unrestricted Net Position – All other net position that does not meet the definition of "restricted."

Fund Financial Statements:

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

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 Cooperative Board or a committee delegated that authority by a Board Motion or Board Policy.
- 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 has not adopted a formal minimum fund balance policy.

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 various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

Investments - In general, SDCL 4-5-6 permits cooperative funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. The cooperative does not maintain any investment accounts.

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.

NOTE 4 – PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> 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 one each July 1 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 School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014, and 2013 were \$11,989.00, \$12,381.07, and \$12,427.90, respectively, equal to the required contributions each year.

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 School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,251,702.04
Less proportionate share of total pension asset:	<u>1,166,687.14</u>
Proportionate share of net pension asset	<u>\$ 85,014.90</u>

At June 30 2015, the School District reported a liability (asset) of \$85,014.90 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 School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .01180010%, which is an increase of .01180010% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$3,591.00. At June 30, 2015 the School District 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	\$ 7,193.41	\$
Changes in Assumption	55,495.19	
Net Difference between projected and actual earnings on pension plan investments		98,461.58
District contributions subsequent to the measurement date.	<u>11,989.00</u>	<u> </u>
TOTAL	<u>\$ 74,677.60</u>	<u>\$ 98,461.58</u>

\$11,989.00 reported as deferred outflow of resources related to pensions resulting from School District 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:	
2015	\$ (6,755.40)
2016	(6,755.40)
2017	(6,755.40)
2018	<u>(15,506.80)</u>
TOTAL	<u>\$ (35,773.00)</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:

<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	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (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 liability (asset).

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

The following presents the School District'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 School'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%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
School District's proportionate share of the net pension liability (asset)	\$84,010.71	\$(85,014.89)	\$(222,872.91)

Pension Plan Fiduciary Net Position:

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

NOTE 5 – RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to tort; 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 provides health insurance through Madison Central School District's self-funded plan and through a commercial insurance carrier for claims over \$40,000.

Liability Insurance

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

Worker's Compensation

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

NOTE 6 – SIGNIFICANT CONTINGENCIES - LITIGATION

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

NOTE 7 – PERIOR 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:

Net Position July 1, 2014, as previously reported	\$ 53,795.89
Restatement for pension accounting:	
Net Pension Asset	33,269.84
Pension related Deferred Outflows of Resources	<u>12,381.00</u>
Net Position July 1, 2014, as restated	<u>\$ 99,446.73</u>

**REQUIRED SUPPLEMENTARY INFORMATION
PRAIRIE LAKES EDUCATIONAL COOPERATIVE
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Other Revenue from Local Sources:				
Services Provided Other LEAs	\$402,943.00	\$402,943.00	\$376,812.81	\$(26,130.19)
Other			25.00	25.00
Restricted Grants-in-Aid from				
Federal Government through State	<u>71,825.00</u>	<u>71,825.00</u>	<u>56,380.00</u>	<u>(15,445.00)</u>
Total Revenue	<u>474,768.00</u>	<u>474,768.00</u>	<u>433,217.81</u>	<u>(41,550.19)</u>
Expenditures:				
Support Services:				
Pupils:				
Psychological	314,793.00	314,793.00	300,229.67	14,563.33
Support Services - General Administration:				
Executive Administration	69,150.00	69,150.00	64,796.66	4,353.34
Support Services - Business:				
Other	15,500.00	15,500.00		15,500.00
Receiving/Disbursing Funds Services	71,825.00	71,825.00	68,191.48	3,633.52
Contingency	<u>3,500.00</u>	<u>3,500.00</u>		<u>3,500.00</u>
Total Expenditures	<u>474,768.00</u>	<u>474,768.00</u>	<u>433,217.81</u>	<u>41,550.19</u>
Change in Fund Balance	0.00	0.00	0.00	0.00
Fund Balance - July 1, 2014	<u>53,795.89</u>	<u>53,795.89</u>	<u>53,795.89</u>	
FUND BALANCE - JUNE 30, 2015	<u>\$ 53,795.89</u>	<u>\$ 53,795.89</u>	<u>\$ 53,795.89</u>	<u>\$ 0.00</u>

Schedule of Required Supplementary Information
PRAIRIE LAKES EDUCATIONAL COOPERATIVE
SCHEDULE OF THE COOPERATIVE CONTRIBUTIONS
South Dakota Retirement System

	<u>2014</u>	<u>2015</u>
Contractually required contribution	<u>\$ 12,381</u>	<u>\$ 11,989</u>
Contributions in relation to the contractually required contribution	<u>\$ 12,381</u>	<u>\$ 11,989</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$ 206,348	\$ 199,819
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

Schedule of Required Supplementary Information
PRAIRIE LAKES EDUCATIONAL COOPERATIVE
SCHEDULE OF THE COOPERATIVE'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)
South Dakota Retirement System

	2015
District's proportion of the net pension liability (asset)	0.0118001%
District's proportionate share of net pension liability (asset)	\$ (33,270)
District's covered-employee payroll	\$ 206,348
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-16.12%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

PRAIRIE LAKES EDUCATIONAL COOPERATIVE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Budgetary Comparison for the General Fund with a legally required budget.

NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING

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

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

QUAM & BERGLIN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
110 WEST MAIN – P.O. BOX 426
ELK POINT, SOUTH DAKOTA 57025

(605) 356-3374

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

Board of Directors
Prairie Lakes Educational Cooperative
Lake 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 and each major fund of the Prairie Lakes Educational Cooperative, Lake County, South Dakota, 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 September 9, 2015.

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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Current Audit Findings, that we consider to be a significant deficiency.

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, and contracts, 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 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 Corrective Action Plan found in the Table of Contents. 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.

Quam & Berglin, P.C.

Quam and Berglin, P.C.
Certified Public Accountants
Elk Point, SD

September 9, 2015

**PRAIRIE LAKES EDUCATIONAL COOPERATIVE
SCHEDULE OF AUDIT FINDINGS
JUNE 30, 2015**

PRIOR AUDIT FINDING:

Audit Finding Number 2014-01:

A significant deficiency was reported for a lack of segregation of duties for revenues. This comment results from the size of the cooperative, which precludes staffing at a level sufficient to provide an ideal environment for internal control. This finding has not been corrected and is restated under current audit finding number 2015-001.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings-Significant Deficiency:

Audit Finding Number 2015-001:

There is a significant deficiency resulting from the lack of segregation of duties for revenues.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to the revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

Recommendation:

We recommend that Prairie Lakes Educational Cooperative officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating controls whenever and wherever, practical.

Corrective Action Plan:

Mitchell Brooks, Business Manager for Prairie Lakes Educational Cooperative, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Board of Directors has prepared a response to this finding found on page 32.

PRAIRIE LAKES EDUCATIONAL COOPERATIVE

CORRECTIVE PLAN OF ACTION

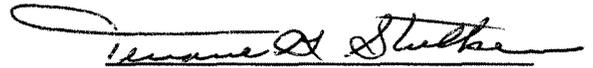
6/30/15

Prairie Lakes Educational Cooperative has considered the lack of segregation of duties for the revenues function. At this time it is not cost effective for the Prairie Lakes Educational Cooperative to hire the additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by Prairie Lakes Educational Cooperative to decrease the likelihood that financial data is adversely affected.

The Prairie Lakes Educational Cooperative's Board of Directors will continue to monitor the necessity to have segregation of duties for revenues and implement such segregation as budget dollars and board authority allow.



Business Manager



Director