

**SOUTHEAST AREA COOPERATIVE**

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

**JUNE 30, 2015**

SOUTHEAST AREA COOPERATIVE  
SOUTHEAST AREA COOPERATIVE OFFICIALS  
JUNE 30, 2015

Cooperative Board

Tara Cole

Clifton Carnes

Craig Stearns

Nancy Adema

Daniel Larson

Charles Kludt

Matt Knodel

Director

Lezlie Larsen

Business Manager

Cheryl Johnson

SOUTHEAST AREA COOPERATIVE  
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	18
Statement of Net Position - Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Net Position - Fiduciary Funds	22
Notes to Financial Statements	23
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Budgetary Comparison Schedules:	
General Fund	37
Schedule of the Proportionate Share of the Net Pension Liability (Asset)	39
Schedule of the School District Contributions	40
Notes to Required Supplementary Information	41
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule of Expenditures of Federal Awards	42
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133	45
Schedule of Prior Audit Findings and Questioned Costs	47
Schedule of Current Audit Findings and Questioned Costs	48
Corrective Action Plan	50

# 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  
Southeast Area Cooperative  
Beresford, South Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Southeast Area Cooperative, Beresford, South Dakota (Cooperative), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***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 Southeast Area Cooperative as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows 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 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), the Pension Schedules and the Budgetary Comparison Schedules 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 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.

#### *Supplementary Information*

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2016, on our consideration of the Southeast Area 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 Southeast Area Cooperative's internal control over financial reporting and compliance.

*Quam & Berglin, P.C.*

Quam and Berglin, P.C.  
Elk Point, SD

February 9, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### FINANCIAL HIGHLIGHTS

- Revenues exceeded expenditures by \$44,500 for 2014-2015 resulting in a positive change to the fund balance.
- Cooperative owned vehicles for staff use continue to keep mileage costs under control and contribute to qualified staff retention.

### 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 Southeast Area Cooperative:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about Southeast Area 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.
- Southeast Area Cooperative maintains one Proprietary Fund and one Fiduciary Fund.
  - The governmental funds statements tell how general services were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that a school operates like businesses. The only proprietary fund operated by Southeast Area Cooperative is the Unemployment Fund.
  - Fiduciary fund statements provide information about the financial relationships, like scholarships for graduating students, in which the Cooperative would act solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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 school government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of Southeast Area Cooperative's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to private business and the food service operation.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position *Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic 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	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
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	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Government-wide Statements

The government-wide statements report information about Southeast Area 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 Southeast Area Cooperative's net position and how they have changed. Net position – the difference between Southeast Area Cooperative's assets and liabilities – is one way to measure Southeast Area Cooperative's financial health or position.

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

The government-wide financial statements of Southeast Area Cooperative are reported into one category:

- **Governmental Activities** - This category includes Southeast Area Cooperative's basic instructional services, such as alternative education and support services (guidance, psychology, physical therapy, occupational therapy, improvement of instruction, administration, fiscal, 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 Southeast Area 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.

Southeast Area Cooperative has three kinds of funds:

- **Governmental Funds** – All of Southeast Area 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance Southeast Area 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.
- **Proprietary Funds** – Services for which Southeast Area Cooperative charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The Unemployment Fund is the only proprietary fund that the Cooperative currently operates.
- **Fiduciary Funds** - The Cooperative is the trustee, or fiduciary, for various external and internal parties. The Cooperative is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Cooperative's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the Cooperative's government-wide financial statements because the Cooperative cannot use these assets to finance its operations.

# FINANCIAL ANALYSIS OF SOUTHEAST AREA COOPERATIVE AS A WHOLE

## Net Position

Southeast Area Cooperative's combined statement of net position changed as follows:

TABLE A-1  
SOUTHEAST AREA COOPERATIVE  
STATEMENT OF NET POSITION

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Current and Other Assets	\$ 415,923.44	\$ 889,984.01	XX	XX	\$ 415,923.44	\$ 889,984.01
Capital Assets	73,732.47	59,514.98	XX	XX	73,732.47	59,514.98
<b>Total Assets</b>	<u>489,655.91</u>	<u>949,498.99</u>	<u>XX</u>	<u>XX</u>	<u>489,655.91</u>	<u>949,498.99</u>
Deferred Outflows of Resources		381,612.78	XX	XX		381,612.78
Other Liabilities	172,449.76	172,449.76	XX	XX	172,449.76	172,449.76
<b>Total Liabilities</b>	<u>172,449.76</u>	<u>172,449.76</u>	<u>XX</u>	<u>XX</u>	<u>172,449.76</u>	<u>172,449.76</u>
Deferred Inflows of Resources		496,585.94	XX	XX		496,585.94
Net Position:						
Net Investment in Capital Assets	73,732.47	59,514.98	XX	XX	73,732.47	59,514.98
Restricted		313,795.11	XX	XX		313,795.11
<b>Total Net Position</b>	<u>\$ 317,206.15</u>	<u>\$ 659,426.57</u>	<u>XX</u>	<u>XX</u>	<u>\$ 317,206.15</u>	<u>\$ 659,426.57</u>
Increase (Decrease) in Net Position	(26,125.85)	111,982.36	XX	XX	(26,125.85)	111,982.36
Beginning Net Position	<u>343,332.00</u>	<u>547,444.21</u>	<u>XX</u>	<u>XX</u>	<u>343,332.00</u>	<u>547,444.21</u>
Ending Net Position	<u>\$ 317,206.15</u>	<u>\$ 659,426.57</u>	<u>XX</u>	<u>XX</u>	<u>\$ 317,206.15</u>	<u>\$ 659,426.57</u>
Percentage of Increase (Decrease) in Net Position	-7.61%	20.46%	XX	XX	-7.61%	20.46%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The long-term liabilities of Southeast Area Cooperative, consisting of accrued annual leave, have been reported in this same manner on the Statement of Net Position. The difference between Southeast Area 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**  
**SOUTHEAST AREA COOPERATIVE**  
**Changes in Net Position**

	Total Governmental Activities		Total Business-Type Activities		Total	
	<u>FY2014</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2015</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 824,575.40	\$ 935,122.22	xx	xx	\$ 824,575.40	\$ 935,122.22
Operating Grants and Contributions	1,014,337.69	1,051,615.11	xx	xx	1,014,337.69	1,051,615.11
General Revenues:						
Revenue-Local Sources	<u>1,195.27</u>	<u>1,191.42</u>	<u>xx</u>	<u>xx</u>	<u>1,195.27</u>	<u>1,191.42</u>
<b>Total Revenues</b>	<b><u>1,840,108.36</u></b>	<b><u>1,987,928.75</u></b>	<b><u>xx</u></b>	<b><u>xx</u></b>	<b><u>1,840,108.36</u></b>	<b><u>1,987,928.75</u></b>
<b>Expenses</b>						
Instruction	290,124.93	231,621.44	xx	xx	290,124.93	231,621.44
Support Services	<u>1,576,109.28</u>	<u>1,644,324.95</u>	<u>xx</u>	<u>xx</u>	<u>1,576,109.28</u>	<u>1,644,324.95</u>
<b>Total Expenses</b>	<b><u>1,866,234.21</u></b>	<b><u>1,875,946.39</u></b>	<b><u>xx</u></b>	<b><u>xx</u></b>	<b><u>1,866,234.21</u></b>	<b><u>1,875,946.39</u></b>
<b>Increase (Decrease) in Net Position</b>	<b><u>\$ (26,125.85)</u></b>	<b><u>\$ 111,982.36</u></b>	<b><u>xx</u></b>	<b><u>xx</u></b>	<b><u>\$ (26,125.85)</u></b>	<b><u>\$ 111,982.36</u></b>
Prior Period Adjustment		<u>230,238.06</u>	<u>xx</u>	<u>xx</u>		<u>230,238.06</u>
<b>NET POSITION - ENDING</b>	<b><u>\$ 317,206.15</u></b>	<b><u>\$ 659,426.57</u></b>	<b><u>xx</u></b>	<b><u>xx</u></b>	<b><u>\$ 317,206.15</u></b>	<b><u>\$ 659,426.57</u></b>

The Cooperative's revenues totaled \$1,987,929. (See Table A-2.) Approximately 52.9% of the Cooperative's revenue comes from restricted grants, with another 47.1% coming from charges for services. (See Figure A-3).

The total cost of all programs and services was \$1,875,946. The Cooperative's expenses cover a range of services, encompassing instruction and support services. (See Figure A-4).

Figure A-3

### Southeast Area Cooperative Sources of Revenues for FY2015

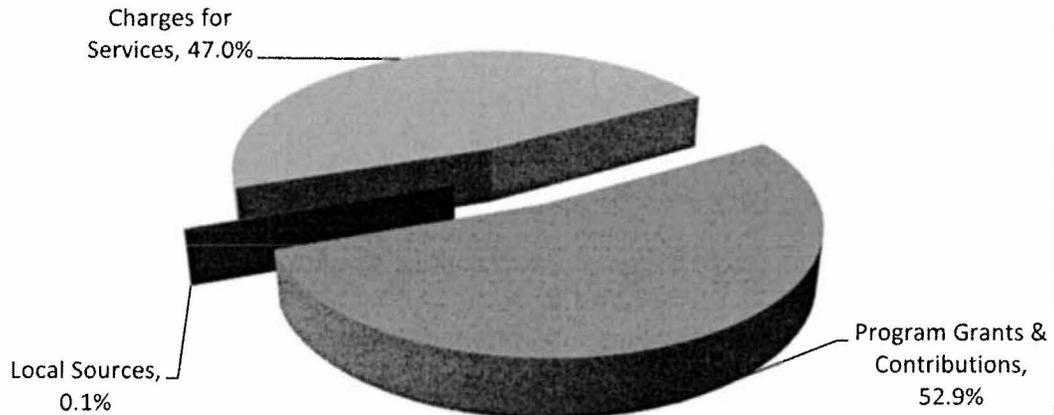
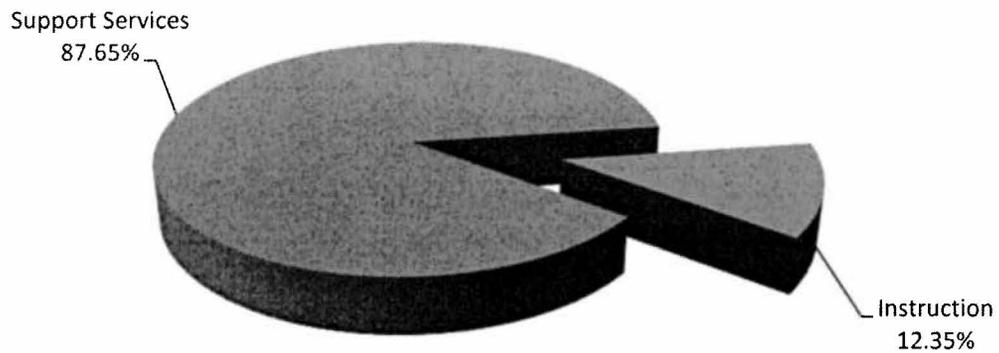


Figure A-4

### Southeast Area Cooperative Functional Expenses for FY2015



## FINANCIAL ANALYSIS OF SOUTHEAST AREA COOPERATIVE'S FUNDS

The General Fund showed an increase of approximately \$45,000 for the year.

### BUDGETARY HIGHLIGHTS

Over the course of the year, the Board adjusted the budget. These adjustments fall into two categories:

- Supplemental appropriations and transfers to provide for items necessary for the programs of the Cooperative
- To properly account for expenditures/revenues for federal funds

### CAPITAL ASSET ADMINISTRATION

By the end of 2015, Southeast Area Cooperative had invested \$59,515 in capital assets, including land and other capital assets. (See Table A-3.) This amounted to a net decrease of \$14,217. This decrease is due to aging assets. All capital assets are for governmental activities.

Table A-3  
SOUTHEAST AREA COOPERATIVE - CAPITAL ASSETS

	Governmental Activities	
	<u>FY2014</u>	<u>FY2015</u>
Land	\$ 15,633	\$ 15,633
Other Capital Assets, Net of Depr.	<u>58,099</u>	<u>43,882</u>
Total Capital Assets	<u>\$ 73,732</u>	<u>\$ 59,515</u>

The Cooperative currently has seventeen vehicles in its fleet. As vehicles age, useful life will be determined and if needed, they will be surplus and sold. There is currently no plan to increase the size of the fleet.

### LONG-TERM DEBT

At this time, the long-term debt obligations for Southeast Area Cooperative are as shown for the accrued vacation leave payable to key personnel.

Table A-4  
SOUTHEAST AREA COOPERATIVE  
Outstanding Debt and Obligations

	<u>Governmental Activities</u>		<u>Total % Change</u>
	<u>FY2014</u>	<u>FY2015</u>	
Accrued Leave Payable	<u>19,835.07</u>	<u>21,837.15</u>	10.09%
Total Long-Term Liabilities	<u>\$ 19,835.07</u>	<u>\$ 21,837.15</u>	

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Southeast Area Cooperative does not have the authority to tax or bond and is not eligible for state aid with the current formula. Maintaining high quality services to the members is of utmost importance. Management will continue to work within the budget to provide those services.

## **CONTACTING SOUTHEAST AREA COOPERATIVE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of Southeast Area Cooperative's finances and to demonstrate Southeast Area Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact Southeast Area Cooperative's Business Office, 605-763-5096, 1109 W. Cedar, Beresford, SD 57004.

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 216,015.47
Investments	21,226.94
Due from Other Governments	223,973.33
Net Pension Asset	428,768.27
Capital Assets:	
Land	15,633.07
Other Capital Assets, Net of Depreciation	<u>43,881.91</u>
<b>TOTAL ASSETS</b>	<u>949,498.99</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension Related Deferred Outflows	<u>381,612.78</u>
<b>LIABILITIES :</b>	
Accounts Payable	8,112.94
Accrued Wages & Benefits Payable	136,347.28
Deposits Payable	8,801.89
Noncurrent Liabilities	
Due Within One Year	5,459.29
Due in More Than One Year	<u>16,377.86</u>
<b>TOTAL LIABILITIES</b>	<u>175,099.26</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Pension Related Deferred Inflows	<u>496,585.94</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	59,514.98
Restricted for:	
SDRS Pension Purposes	313,795.11
Unrestricted Net Position	<u>286,116.48</u>
<b>TOTAL NET POSITION</b>	<u>\$ 659,426.57</u>

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

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Primary Government:				
Governmental Activities:				
Instruction	\$ 231,621.44	\$	\$	\$ (231,621.44)
Support Services	<u>1,644,324.95</u>	<u>935,122.22</u>	<u>1,051,615.11</u>	<u>342,412.38</u>
Total Governmental Activities	<u>1,875,946.39</u>	<u>935,122.22</u>	<u>1,051,615.11</u>	<u>110,790.94</u>
13 Total Primary Government	<u>\$ 1,875,946.39</u>	<u>\$ 935,122.22</u>	<u>\$ 1,051,615.11</u>	<u>110,790.94</u>
		<b>General Revenues:</b>		
		Revenue from Local Sources:		
				<u>1,191.42</u>
				<u>1,191.42</u>
				<u>111,982.36</u>
				317,206.15
				<u>230,238.06</u>
				<u>547,444.21</u>
				<u>\$ 659,426.57</u>

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

**SOUTHEAST AREA COOPERATIVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General Fund</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 216,015.47
Due from Other Governments	<u>223,973.33</u>
<b>TOTAL ASSETS</b>	<u><u>439,988.80</u></u>
 <b>LIABILITIES AND FUND BALANCES:</b>	
Liabilities:	
Accounts Payable	8,112.94
Contracts Payable	106,538.52
Payroll Deductions and Withholdings and Employer Matching Payable	29,808.76
Deposits Payable	<u>8,801.89</u>
<b>Total Liabilities</b>	<u>153,262.11</u>
 Fund Balances:	
Assigned-Capital Assets	10,099.25
Assigned-Subsequent Year's Budget	104,590.00
Unassigned	<u>172,037.44</u>
<b>Total Fund Balances</b>	<u>286,726.69</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u><u>\$ 439,988.80</u></u>

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

**SOUTHEAST AREA COOPERATIVE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

Total Fund Balances - Governmental Funds		\$ 286,726.69
Amounts reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Capital Assets	\$ 242,607.00	
Less: accumulated depreciation	<u>(183,092.02)</u>	59,514.98
Accrued leave payable is not due and payable in the current period and therefore is not reported in the funds.		
Accrued Vacation Payable		(21,837.15)
Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		
		428,768.27
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.		
		381,612.78
Pension related deferred inflows are components of pension liability and therefore are not reported in the funds		
		(496,585.94)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net position and liabilities of the internal service fund are reported with governmental activities.		
		<u>21,226.94</u>
Net Position - Governmental Funds		<u>\$ 659,426.57</u>

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

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

	<b>General Fund</b>
Revenues:	
Revenue from Local Sources:	
Earnings on Investments and Deposits	\$ 1,048.79
Other Revenue from Local Sources:	
Services Provided Other LEAs	687,451.22
Other	229,559.99
Revenue from Federal Sources:	
Grants-in-Aid:	
Restricted Grants-in-Aid	
Received from Federal Government Through the State	1,051,615.11
Total Revenue	1,969,675.11
Expenditures:	
Special Programs:	
Early Childhood Programs	267,432.01
Programs for Special Education	29,635.47
Support Services:	
Pupils:	
Guidance	35,672.04
Psychological	145,577.96
Speech Pathology	495,044.95
Student Therapy Services	238,943.19
Support Services - Instructional Staff:	
Improvement of Instruction	26,973.10
Educational Media	93,994.01
Support Services - General Administration:	
Board of Education	8,918.19
Executive Administration	105,412.67
Support Services - Business:	
Fiscal Services	100,782.66
Operation and Maintenance of Plant	68,061.15
Supplies	166,874.48

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

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

	<b>General Fund</b>
Support Services - Special Education:	
Other Special Education Costs	141,850.98
Total Expenditures	1,925,172.86
 Net Change in Fund Balance	 44,502.25
Fund Balance - July 1, 2014	242,224.44
 FUND BALANCE - JUNE 30, 2015	 \$ 286,726.69

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

**SOUTHEAST AREA 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 \$ 44,502.25

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay:

Depreciation Expense	<u>\$ (14,217.48)</u>	(14,217.48)
----------------------	-----------------------	-------------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in compensated absences payable.	(2,002.09)
---	------------

Changes in the pension related deferred outflows/inflows are direct components of pension liability(asset) and are not reflected in the governmental funds.	83,557.05
---	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>142.63</u>
---	---------------

Change in Net Position of Governmental Activities	<u>\$111,982.36</u>
---	---------------------

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

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015**

	<b>Internal Service Fund</b>
<b>ASSETS:</b>	
Current Assets:	
Investments	<u>\$ 21,226.94</u>
Total Current Assets	<u>21,226.94</u>
<b>TOTAL ASSETS</b>	<u>21,226.94</u>
<b>NET POSITION:</b>	
Unrestricted Net Position	<u>21,226.94</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 21,226.94</u></u>

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

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Internal Service Fund</b>
<b>Nonoperating Revenue (Expense):</b>	
Local Sources:	
Investment Earnings	\$ <u>142.63</u>
Total Nonoperating Revenue (Expense)	<u>142.63</u>
 Change in Net Position	 142.63
Net Position - Beginning	<u>21,084.31</u>
 NET POSITION - ENDING	 <u>\$ 21,226.94</u>

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

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Internal Service Fund</b>
<b>Cash Flows from Investing Activities:</b>	
Investment Earnings	\$ <u>142.63</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ <u>142.63</u>
Cash and Cash Equivalents at Beginning of Year	\$ 20,958.28
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>21,100.91</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ <u>142.63</u>

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

**SOUTHEAST AREA COOPERATIVE  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015**

	<b>Agency Funds</b>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 8,950.28
Due from General Fund	23.90
TOTAL ASSETS	8,974.18
 <b>LIABILITIES:</b>	
Amounts Held for Others	8,974.18
TOTAL LIABILITIES	8,974.18
 NET POSITION	 \$ 0.00

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

SOUTHEAST AREA 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 Southeast Area 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 Southeast Area Cooperative is a cooperative service unit (Co-op) formed for the purpose of providing special education and other services to member cooperatives that would not be able to provide these services as effectively or as economically on their own.

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

Alcester-Hudson	8.55%
Beresford	18.81%
Canton	26.01%
Elk Point-Jefferson	20.21%
Gayville-Volin	7.90%
Irene-Wakonda	7.98%
Viborg-Hurley	10.54%

The Cooperative's governing board is composed of one 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 superintendents from each member school district serve on an advisory board.

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 policies.

b. Basis of Presentation

*Government-wide Financial Statements:*

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by 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 organization, 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's 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 the entire general operational costs of the Cooperative. The General Fund is the only governmental fund of the Cooperative. The General Fund is always a major fund.

#### **Proprietary Funds:**

*Internal Service Funds* – Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the Cooperative, or to other governments, on a cost-reimbursement basis. Internal Service Funds are never considered to be major funds.

The Unemployment Fund is the only Internal Service Fund maintained by the Cooperative.

## **Fiduciary Funds:**

Fiduciary Funds consists of the following category and are never considered to be major funds:

*Agency Funds - Agency funds are used to account for resources held by the Cooperative in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The Cooperative uses agency funds for the following purposes: Organization Accounts.*

### **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 fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary 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 Southeast Area Cooperative, the length of that cycle is 60 days. The revenues which were accrued at June 30, 2015 are amounts due from other governments.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectable 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.

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

d. Interfund Eliminations and Reclassifications

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities columns, except for the net, residual amounts due between governmental activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance classification account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. 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 pool, are also considered to be cash equivalents.

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

f. Capital Assets

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

The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations, and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Financial Statements*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The balance of capital assets as of June 30, 2015 for governmental activities is valued at original cost.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	ALL	NA	NA
Buildings	\$ 25,000	Straight Line	25-50 Years
Machinery and Equipment	5,000	Straight Line	2 -20 Years

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations, and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences.

h. 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.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Cash and Cash Equivalents:

For the purpose of preparing the Statement of Cash Flows, the Cooperative considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

k. Equity Classifications

*Government-wide Financial Statements:*

Equity is classified as net position, and is displayed in three components:

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

*Fund Financial Statements:*

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

I. 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.

m. 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 purpose 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.
- 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 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.

n. 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. School District contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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

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.

**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.

**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.

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

**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.

### NOTE 4 - INVENTORY

Inventory is stated at the lower of cost or market. The cost valuation method is the first in, first out (FIFO) method.

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.

In the fund financial statements, inventories in the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. No material inventories were on hand as of June 30, 2015 in the governmental fund.

## NOTE 5 - CHANGES IN CAPITAL ASSETS

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

Primary Government	Balance 6/30/2014	Increase	Decrease	Balance 6/30/2015
Governmental Activities:				
Capital Assets, not depreciated				
Land	\$ 15,633.07	\$	\$	\$ 15,633.07
Capital Assets, depreciated:				
Buildings	50,166.93			50,166.93
Machinery & Equipment	192,207.00		(15,400.00)	176,807.00
Total Capital Assets, depreciated	242,373.93		(15,400.00)	226,973.93
Less: Accumulated Depreciation				
Buildings	(21,070.14)	(1,003.34)		(22,073.48)
Machinery & Equipment	(163,204.40)	(13,214.14)	15,400.00	(161,018.54)
Total Accumulated Depreciation	(184,274.54)	(14,217.48)	15,400.00	(183,092.02)
Total Capital Assets, being depreciated, net	58,099.39	(14,217.48)		43,881.91
Governmental Activities Capital Assets, net	\$ 73,732.46	\$ (14,217.48)	\$	\$ 59,514.98
**Depreciation expense was charged to functions as follows:				
Governmental Activities				
Support Services				\$ 14,217.48

## NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

Liabilities Payable, July 1, 2014	Compensated Absences
Additions	\$ 19,835.07
Deletions	15,769.80
Liabilities Payable, June 30, 2015	(13,767.72)
Due within One Year	\$ 21,837.15
	\$ 5,459.29

Compensated absences for governmental activities typically have been liquidated from the General Fund.

Liabilities payable at June 30, 2015 is comprised of the following:

Compensated Absences:	
Vested annual leave; payments to be made from General Fund	\$ 21,837.15

## NOTE 7 - 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 joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

The cooperative does not carry additional health insurance coverage to pay claims in excess.

### 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.

The Cooperative has a net position in the Unemployment Fund in the amount of \$21,226.94 for the payment of future unemployment benefits.

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

## NOTE 8 – PENSION PLAN

### **Plan Information:**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in 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 \$65,446.04, \$62,443.34, and \$63,690.84, 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, 2015, 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, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 6,312,895.12
Less proportionate share of total pension assets	<u>5,884,126.85</u>
Proportionate share of net pension asset	<u><u>\$ 428,768.27</u></u>

At June 30 2015, the School District reported an asset of \$428,768.27 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the 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 .0595132%, which is an increase of .0595132%, from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension revenue of \$18,111.01. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 36,279.59	\$
Changes in assumption	279,887.14	
Net difference between projected and actual earnings on pension plan investments		496,585.94
District contributions subsequent to the measurement date	65,446.04	
TOTAL	<u>\$ 381,612.78</u>	<u>\$ 496,585.94</u>

\$65,446.04 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	\$ (34,070.49)
2016	(34,070.49)
2017	(34,070.49)
2018	<u>(78,207.73)</u>
TOTAL	<u>\$ (180,419.20)</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	<u>2.0%</u>	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% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$ 423,703.69	\$ (428,768.27)	\$ (1,124,048.13)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 9 – SIGNIFICANT CONTINGENCIES – LITIGATION**

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

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The School District 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	\$ 80,554.35
Restatement for pension accounting:	
Net Pension Asset	167,794.72
Pension related Deferred Outflows of Resources	<u>65,446.04</u>
Net Position July 1, 2014, as restated	<u>\$ 313,795.11</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
SOUTHEAST AREA 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>		
<b>Revenues:</b>				
Earnings on Investments and Deposits	\$ 1,300.00	\$ 1,300.00	\$ 1,048.79	\$ (251.21)
Other Revenue from Local Sources:				
Services Provided from Other LEAs	738,794.00	738,794.00	687,451.22	(51,342.78)
Other	226,171.00	226,171.00	229,559.99	3,388.99
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Through the State	<u>1,043,405.00</u>	<u>1,043,405.00</u>	<u>1,051,615.11</u>	<u>8,210.11</u>
<b>Total Revenue</b>	<u>2,009,670.00</u>	<u>2,009,670.00</u>	<u>1,969,675.11</u>	<u>(39,994.89)</u>
<b>Expenditures:</b>				
Instruction:				
Special Programs:				
Early Childhood Programs	283,154.00	283,907.00	267,432.01	16,474.99
Programs for Special Education	31,013.00	31,013.00	29,635.47	1,377.53
Support Services:				
Pupils:				
Guidance	37,609.00	37,609.00	35,672.04	1,936.96
Psychological	162,076.00	163,659.00	145,577.96	18,081.04
Speech Pathology	511,995.00	511,995.00	495,044.95	16,950.05
Student Therapy Services	251,447.00	251,825.00	238,943.19	12,881.81
Support Services - Instructional Staff:				
Improvement of Instruction	29,845.00	30,328.00	26,973.10	3,354.90
Educational Media	132,000.00	132,000.00	93,994.01	38,005.99
Support Services - General Administration:				
Board of Education	11,654.00	11,654.00	8,918.19	2,735.81
Executive Administration	108,811.00	108,811.00	105,412.67	3,398.33
Support Services - Business:				
Fiscal Services	104,432.00	104,432.00	100,782.66	3,649.34
Operation and Maintenance of Plant	111,107.00	111,107.00	68,061.15	43,045.85

**SOUTHEAST AREA COOPERATIVE  
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Support Services - Central:				
Supplies	166,800.00	166,800.00	166,874.48	(74.48)
Support Services - Special Education:				
Other Special Education Costs	142,989.00	142,989.00	141,850.98	1,138.02
Contingencies	<u>4,500.00</u>	<u>1,303.00</u>	<u>                    </u>	<u>1,303.00</u>
Total Expenditures	<u>2,089,432.00</u>	<u>2,089,432.00</u>	<u>1,925,172.86</u>	<u>164,259.14</u>
Change in Fund Balances	(79,762.00)	(79,762.00)	44,502.25	124,264.25
Fund Balance - July 1, 2014	<u>242,224.44</u>	<u>242,224.44</u>	<u>242,224.44</u>	<u>                    </u>
<b>FUND BALANCE - JUNE 30, 2015</b>	<u><b>\$ 162,462.44</b></u>	<u><b>\$ 162,462.44</b></u>	<u><b>\$ 286,726.69</b></u>	<u><b>\$ 124,264.25</b></u>

**Schedule of Required Supplementary Information**  
**SOUTHEAST AREA COOPERATIVE**  
**SCHEDULE OF THE COOPERATIVE'S PROPORTIONATE SHARE OF THE NET PENSION**  
**South Dakota Retirement System**

	2015
Coop's proportion of the net pension liability (asset)	0.0595132%
Coop's proportionate share of net pension liability (asset)	\$ (428,768)
Coop's covered-employee payroll	\$1,090,806
Coop's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-39.31%
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

**Schedule of Required Supplementary Information**  
**SOUTHEAST AREA COOPERATIVE**  
**SCHEDULE OF THE COOPERATIVE'S CONTRIBUTIONS**  
**South Dakota Retirement System**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	<u>\$ 62,443</u>	<u>\$ 65,446</u>
Contributions in relation to the contractually required contribution	<u>\$ 62,443</u>	<u>\$ 65,446</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Coop's covered-employee payroll	\$1,040,718	\$1,090,806
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

SOUTHEAST AREA COOPERATIVE  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
Schedules of Budgetary Comparisons for the General Fund and for each major  
Special Revenue 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 eight (8).
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total school district 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 monies 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).

**SOUTHEAST AREA COOPERATIVE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>CFDA Number</u>	<u>Amount FY2015</u>
U.S. Department of Education:		
Pass-Through the State of South Dakota:		
Special Education Cluster: (Note 2)		
Special Education - Grants to States	84.027A	\$ 794,592.00
Special Education - Preschool Grants	84.173A	<u>45,284.00</u>
Total Special Education Cluster		<u>839,876.00</u>
Career and Technical Education - Grants to States	84.048A	35,728.00
Early Intervention Services (IDEA) Cluster:		
Special Education Grants for Infants and Families	84.181	<u>142,989.00</u>
Total U.S. Department of Education		<u>1,018,593.00</u>
 GRAND TOTAL		 <u>\$ 1,018,593.00</u>

Note 1: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursements for specific services.

Note 2: This represents a major federal financial assistance program.

Note 3: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the cooperative and is presented on the modified accrual basis of accounting, unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of general financial statements.

# 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  
Southeast Area Cooperative  
Beresford, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Area Cooperative (Cooperative), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated February 9, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Area 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 a 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 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 over financial reporting that might be significant deficiencies or material weaknesses 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 and Questioned Costs as item 2015-001 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Southeast Area Cooperative's financial statements are free from 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*.

## **Southeast Area Cooperative's Response to Findings**

The Southeast Area Cooperative's response to the finding identified in our audit is described in the Corrective Plan of Action. Southeast Area 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 Organization'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.  
Elk Point, SD

February 9, 2016

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

Board of Directors  
Southeast Area Cooperative  
Beresford, South Dakota

### **Report on Compliance for Each Major Federal Program**

We have audited the Southeast Area Cooperative, Beresford, South Dakota (Cooperative) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2015. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinion on Each Major Federal Program***

In our opinion, Southeast Area Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## **Report on Internal Control Over Compliance**

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

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

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

## **Purpose of this Report**

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

*Quam & Berglin, P.C.*

Quam and Berglin, P.C.  
Elk Point, SD

February 9, 2016

**SOUTHEAST AREA COOPERATIVE  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**PRIOR AUDIT FINDING:**

**Prior Other Audit Findings:**

**Prior Finding Number 2014-001:**

A significant deficiency in internal control was reported for a lack of segregation of duties for revenues. This comment results from the size of the district, which precludes staffing at a level sufficient to provide an ideal environment for internal control.

**Corrective Action Plan:**

This prior audit comment has not been corrected and is being restated under the current audit findings as finding number 2015-001.

**SOUTHEAST AREA COOPERATIVE  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:**

***Financial Statements***

- a. An unmodified opinion was issued on the financial statements of each opinion unit.
- b. A significant deficiency was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues as discussed in finding number 2015-001.
- c. Our audit did not disclose any noncompliance that was material to the financial statements.

***Federal Awards***

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- f. The federal awards tested as major programs were:

Pass-Through the SD Department of Education	
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173

- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.00.
- h. Southeast Area Cooperative did qualify as a low-risk auditee.

**SOUTHEAST AREA COOPERATIVE  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**CURRENT FEDERAL AUDIT FINDINGS:**

There are no current federal compliance audit findings to report.

**CURRENT OTHER AUDIT FINDINGS:**

***Internal Control-Related Findings – Significant Deficiency:***

**Finding Number 2015-001:** A significant deficiency was disclosed by our audit of the financial statements for a 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 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 Found:***

A significant deficiency in internal control was reported due to lack of proper segregation of duties for revenues, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

***Recommendations:***

We recommend that the Board of Directors be cognizant of this lack of segregation of duties for revenues, and attempt to provide compensating controls, whenever and wherever possible and practical.

***Response:***

Cheryl Johnson, Business Manager for Southeast Area Cooperative, is the contact person responsible for the corrective action plan for this comment. The Board of Directors is aware of this problem, which is a result of the size of the entity and 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, shown on page 50.

1109 West Cedar  
Beresford, SD 57004-1524

Phone: (605) 763-5096  
Fax: (605) 763-2206



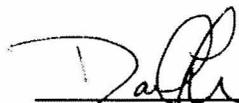
Cheryl R. Johnson  
Business Manager

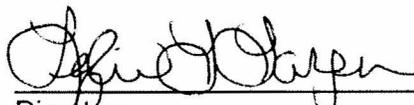
Lezlie L. Larsen  
Director

## CORRECTIVE PLAN OF ACTION June 30, 2015

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

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

  
\_\_\_\_\_  
Board President

  
\_\_\_\_\_  
Director