

EAST DAKOTA EDUCATIONAL COOPERATIVE

AUDIT REPORT

FISCAL YEAR JULY 1, 2103 TO JUNE 30, 2014

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

EAST DAKOTA EDUCATIONAL COOPERATIVE

EAST DAKOTA EDUCATIONAL COOPERATIVE
COOPERATIVE OFFICIALS
JUNE 30, 2014

BOARD MEMBERS:

Renee Ullom – President
Gordon Sweeter – Vice-President
Lisa Engels
Nancy Nelson

DIRECTOR:

Joan Frevik

BUSINESS MANAGER:

Debra Esche

Schoenfish & Co., Inc.

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TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	4
Independent Auditor's Report	5-6
Management's Discussion and Analysis (MD&A).....	7-14
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	18
Statement of Revenues, Expenditures, and Changes In Fund Balances.....	19-20
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances to the Government-Wide Statement of Activities.....	21
Proprietary Funds:	
Statement of Net Position.....	22
Statement of Revenues, Expenses, and Changes In Fund Net Position.....	23
Statement of Cash Flows.....	24
Notes to the Financial Statements.....	25-35
Required Supplementary Information Other than MD&A:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund.....	36-37
Notes to the Required Supplementary Information – Budgetary Comparison Schedules.....	38

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**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
East Dakota Educational Cooperative
Sioux Falls, 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, the business-type activities, and each major fund of the East Dakota Educational Cooperative, Sioux Falls, South Dakota (Cooperative), as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated October 29, 2014, which was qualified for the governmental activities because the unfunded OPEB liability was not reported.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
October 29, 2014

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

The prior audit report contained no written audit comments.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

There are no written current other audit findings to report.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with the Cooperative Board, Director, and Business Manager on November 19, 2014.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Dakota Educational Cooperative
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the East Dakota Educational Cooperative, Sioux Falls, South Dakota, (Cooperative) as of June 30, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Cooperative did not record the unfunded liability for other post-employment benefits in the governmental activities. The annual required contribution of the employer was actuarially determined in accordance with GASB Statement 45 and the liability at June 30, 2014 is a material amount.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the East Dakota Educational Cooperative as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of East Dakota Educational Cooperative as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules, on pages 7 through 14, and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
October 29, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of East Dakota Educational Cooperative's (EDEC) annual financial report presents discussion and analysis of EDEC's financial performance during the fiscal year ended on June 30, 2014. Please read it in conjunction with EDEC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- EDEC's net position from governmental and business-type activities decreased by \$19,257 from FY13.
- The general fund reported a net decrease for FY14.

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 EDEC:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about EDEC'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.
- EDEC maintains one Proprietary Fund and maintains no Fiduciary Funds.
 - 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 EDEC is the Food Service Operation.
 - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which a School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. EDEC does not operate any fiduciary funds.

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 East Dakota Educational Cooperative's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Government Funds	Proprietary Funds
Scope	Entire School Government	The activities of the School that are not proprietary such as high school education and special education programs	Activities the School operates similar to private businesses, i.e., the food service operation
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
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
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
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

Government-wide Statements

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

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

The government-wide financial statements of EDEC are reported into two categories:

- **Governmental Activities** - This category includes EDEC's basic instructional services, such as alternative education, programs at residential programs, support services (guidance, physical therapy, occupational therapy, improvements of instruction, administration, fiscal, operation and maintenance of plant services), and community services. Tuition, contracts for services, state contracts and grants, federal grants and interest earnings finance these activities.
- **Business-Type Activities** – EDEC charges a fee to students to help cover the costs of providing breakfast and lunch services to all students. The Food Service Fund is the only business-type activity of EDEC.

Fund Financial Statements

The fund financial statements provide more detailed information about EDEC's general fund and food service fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. Fund accounting is required by South Dakota State Law.

EDEC has two kinds of funds:

- **Governmental Funds** – All of EDEC's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental 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 EDEC'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 relationship (or differences) between them.
- **Proprietary Funds** – Services for which EDEC charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the same as its business-type activities, but provides more detail and additional information such as cash flows.

FINANCIAL ANALYSIS OF EDEC AS A WHOLE

Net Position

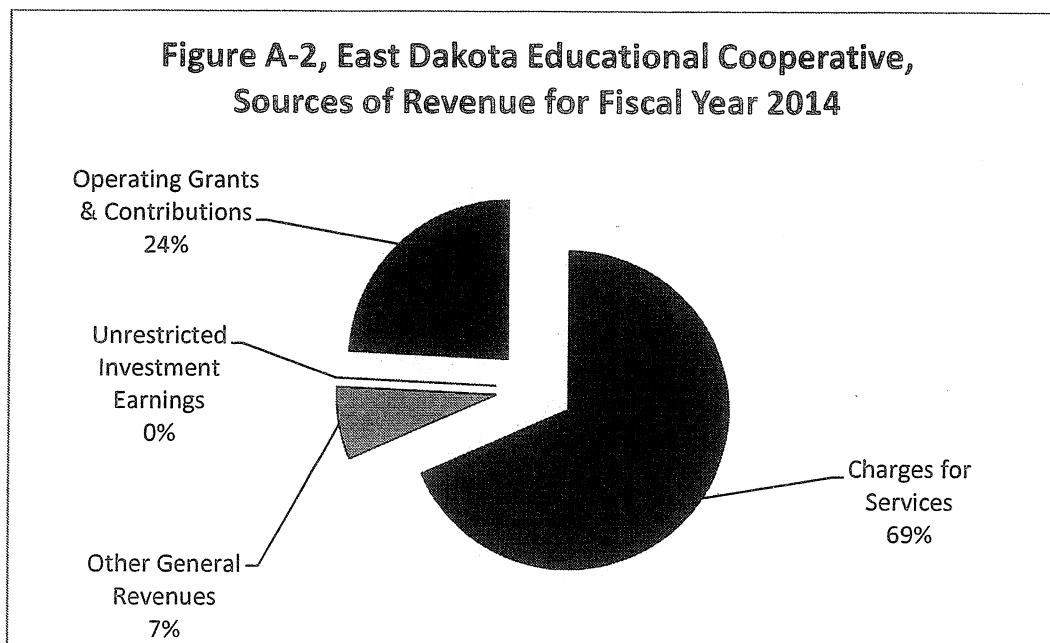
EDEC's combined statement of net position decreased as follows:

Table A-1 East Dakota Educational Cooperative Statement of Net Position						
	Governmental Activities FY2013	Governmental Activities FY2014	Business- Type Activities FY2013	Business- Type Activities FY2014	Total Activities FY2013	Total Activities FY2014
Current and Other Assets	\$2,169,033	\$2,171,287	\$740	\$2,508	\$2,169,774	\$2,173,795
Capital Assets	\$70,250	\$69,814			\$70,250	\$69,814
Total Assets	\$2,239,284	\$2,241,101	\$740	\$2,508	\$2,240,024	\$2,243,609
Long-Term Debt Outstanding	\$13,628	\$15,915			\$13,628	\$15,915
Other Liabilities	\$16,688	\$35,437		\$1,806	\$16,688	\$37,243
Total Liabilities	\$30,316	\$51,352	\$0	\$1,806	\$30,316	\$53,158
Net Position						
Net Investment in Capital Assets						
Net of Related Debt	\$70,250	\$69,814			\$70,250	\$69,814
Unrestricted	\$2,138,717	\$2,119,935	\$740	\$702	\$2,139,457	\$2,120,637
Total Net Position	\$2,208,968	\$2,189,749	\$740	\$702	\$2,209,708	\$2,190,451
Beginning Net Position	\$1,990,225	\$2,208,968	\$319	\$740	\$1,990,544	\$2,209,708
Increase (Decrease) in Net Position	\$218,742	(\$19,219)	\$422	(\$38)	\$219,164	(\$19,257)
Percentage of Increase (Decrease) in Net Position for FY2014	10.99%	(0.87%)	132.29%	(5.13%)	11.01%	(0.87%)

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 liability of EDEC which includes accrued annual leave has been reported in this same manner on the Statement of Net Position. The difference between EDEC's assets and liabilities is its net position. The decrease in Net Position was minimal for FY14. The business-type activity, which is a small food service program, had a decrease; however the dollar amount was not significant.

Changes in Net Position

EDEC's total revenues totaled \$3,088,606 (See Table A-2.) Over 68% of EDEC's revenue comes from Charges for Services decreasing 25% from last fiscal year. Operating Grants & Contributions increased from 7% over FY2013. (See Figure A-2).



EDEC's total expenses totaled \$3,107,863 (see Table A-3) and cover a range of services, encompassing instruction, support services, community services and food service. (See Table A-3.) Support Services expenditures increased 13% over FY2013 and Instruction expenditures have decreased 31% from FY2013.

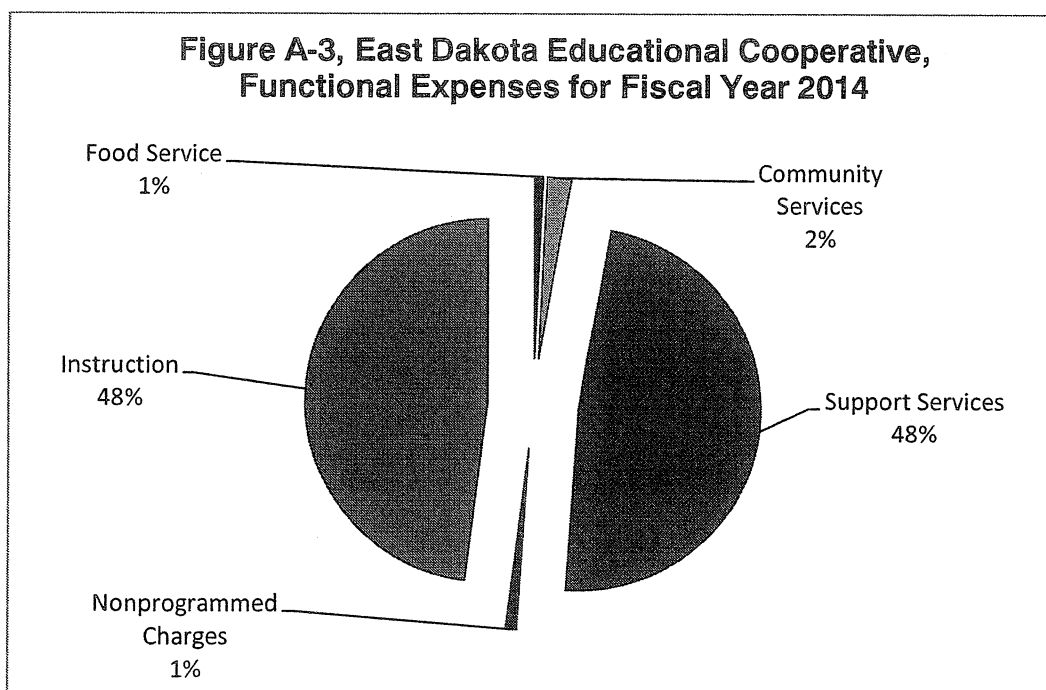


Table A-2 considers the operations of the governmental and business-type activities.

Table A-2 East Dakota Educational Cooperative Changes in Net Position							
	Governmental Activities FY2013	Governmental Activities FY2014	Business- Type Activities FY2013	Business- Type Activities FY2014	Total Activities FY2013	Total Activities FY2014	Total % Change FY13- FY14
Revenues:							
Program Revenues							
Charges for Services	\$2,793,464	\$2,106,878	\$7,876	\$7,822	\$2,801,340	\$2,114,700	-24.51%
Operating Grants & Contributions	\$685,472	\$736,479	\$11,680	\$11,306	\$697,152	\$747,785	7.26%
General Revenues							
Unrestricted Investment Earnings	\$552	\$537			\$552	\$537	-2.74%
Other General Revenues	\$284,807	\$225,584	\$0	\$0	\$284,807	\$225,584	-20.79%
Total Revenues	\$3,764,296	\$3,069,478	\$19,556	\$19,128	\$3,783,852	\$3,088,606	-18.37%
Expenses:							
Instruction	\$2,156,644	\$1,491,229	\$0	\$0	\$2,156,644	\$1,491,229	-30.85%
Support Services	\$1,320,262	\$1,497,180	\$0	\$0	\$1,320,262	\$1,497,180	13.40%
Community Services	\$64,148	\$65,866	\$0	\$0	\$64,148	\$65,866	2.68%
Nonprogrammed Charges	\$0	\$30,222	\$0	\$0	\$0	\$30,222	
Food Service	\$0	\$0	\$23,634	\$23,366	\$23,634	\$23,366	-1.14%
Total Expenses	\$3,541,054	\$3,084,497	\$23,634	\$23,366	\$3,564,688	\$3,107,863	-12.82%
Excess (Deficiency) Before Transfers	\$223,242	(\$15,019)	(\$4,078)	(\$4,238)	\$219,164	(\$19,257)	
Transfers	(\$4,500)	(\$4,200)	\$4,500	\$4,200	\$0	\$0	
Increase (Decrease) in Net Position	\$218,742	(\$19,219)	\$422	(\$38)	\$219,164	(\$19,257)	
Net Position - Ending	\$2,208,968	\$2,189,749	\$740	\$702	\$2,209,708	\$2,190,451	

Governmental Activities

Governmental revenues decreased from FY2013 to FY2014. There was over a 25% decrease in charges for services. This was primarily due to the discontinuation of services to the Elmore Academy.

Business-Type Activities

Revenues and expenditures of East Dakota's business-type activity decreased slightly from the previous year. A \$4,200 transfer from the General Fund was necessary. Factors contributing to these results included:

- The cost of meals purchased and the reimbursement from the Federal government is a fixed amount. In order to keep the amount charged for student meals at a reasonable amount, a transfer from the General Fund was needed.

FINANCIAL ANALYSIS OF EDEC'S FUNDS

The General Funds decreased \$16,495 this year. From year to year, the contracts with local school districts to provide services normally increase due to increased wages and the grants and contracts through the South Dakota Department of Education vary. This was the first year without revenue from the Elmore Academy educational program. The FY2015 budget will include the use of \$432,571 of General Funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Board supplemented the budget one time. This supplements fall into two categories:

- Additional contracts and grants awarded during the year.
- Amendments to existing contracts and grants during the year.

	Original Budget	Final Budget
Revenues	3,104,233	3,322,803
Expenditures	<u>3,497,293</u>	<u>3,792,863</u>
	(393,060)	(470,060)

CAPITAL ASSET ADMINISTRATION

By the end of 2014, EDEC had invested \$69,814 in capital assets, including building improvements, improvements other than building, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease. All capital assets are for governmental activities.

Table A-3 East Dakota Educational Cooperative Capital Assets (Net of Depreciation)		
	Governmental Activities FY2014	Governmental Activities FY2013
Buildings (Improvements)	\$43,139	\$44,679
Machinery & Equipment	\$26,675	\$25,571
Total Capital Assets (Net)	\$69,814	\$70,250

LONG-TERM DEBT

At year-end, EDEC had \$15,915 in accrued annual leave. (See Table A-4.) This is a 17% increase from the previous year. There was an increase in the number of days of liability as well as an increase in the amount of the liability as of 6/30/14.

Table A-4 East Dakota Educational Cooperative Outstanding Debt & Obligations				
	Governmental Activities		Total Dollar	Total %
	FY2013	FY2014	Change FY2014	Change FY2014
Accrued Annual Leave	\$13,628	\$15,915	\$2,287	17%
Total Outstanding Debt & Obligations	\$13,628	\$15,915	\$2,287	17%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

EDEC's current economic position was unchanged in FY2014. EDEC does not have the authority to tax or bond. EDEC is also not eligible for state aid with the current formula. The overall budget for next year will decrease due to the loss of the educational services agreement for the Chamberlain Academy.

CONTACTING EDEC'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of EDEC's finances and to demonstrate EDEC's accountability for the money it receives. If you have questions about this report or need additional information, contact EDEC's Business Office, 605-367-7680, 715 East 14th Street, Sioux Falls, SD 57104.

EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF NET POSITION
As of June 30, 2014

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS:			
Cash and Cash Equivalents	1,496,633.47	2,508.15	1,499,141.62
Inventories	1,668.56		1,668.56
Other Assets	672,985.53		672,985.53
Capital Assets:			
Other Capital Assets, Net of Depreciation	69,813.67		69,813.67
TOTAL ASSETS	2,241,101.23	2,508.15	2,243,609.38
LIABILITIES :			
Accounts Payable	35,437.31	1,806.35	37,243.66
Noncurrent Liabilities:			
Due Within One Year	5,000.00		5,000.00
Due in More than One Year	10,914.81		10,914.81
TOTAL LIABILITIES	51,352.12	1,806.35	53,158.47
NET POSITION:			
Net Investment in Capital Assets	69,813.67		69,813.67
Unrestricted (Deficit)	2,119,935.44	701.80	2,120,637.24
TOTAL NET POSITION	2,189,749.11	701.80	2,190,450.91

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

**EAST DAKOTA EDUCATIONAL COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014**

	General Fund
ASSETS:	
Cash and Cash Equivalents	1,496,633.47
Accounts Receivable, Net	282,054.52
Due from Other Government	380,006.37
Inventory of Supplies	1,668.56
Prepaid Expenses	10,924.64
TOTAL ASSETS	2,171,287.56
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	35,437.31
Total Liabilities	35,437.31
Fund Balances:	
Nonspendable:	
Inventory	1,668.56
Prepaid	10,924.64
Assigned for Next Year's Budget	432,571.00
Unassigned	1,690,686.05
Total Fund Balances	2,135,850.25
TOTAL LIABILITIES AND FUND BALANCES	2,171,287.56

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds	<u>2,135,850.25</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>69,813.67</u>
Long-term liabilities, including accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(15,914.81)</u>
Net Position - Governmental Activities	<u><u>2,189,749.11</u></u>

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	<u>General Fund</u>
Revenues:	
Revenue from Local Sources:	
Tuition and Fees:	
Student Tuition	1,623,039.55
Earnings on Investments and Deposits	537.34
Other Revenue from Local Sources:	
Rentals	2,400.00
Services Provided Other LEAs	483,838.70
Other	223,184.03
Revenue from State Sources:	
Other State Revenue	437,477.51
Revenue from Federal Sources:	
Grants-in-Aid:	
Restricted Grants-in-Aid Received from Federal Government Through the State	249,602.00
Other Federal Revenue	49,399.72
Total Revenue	3,069,478.85
Expenditures:	
Instruction:	
Regular Programs:	
Other Regular Programs	1,376,482.24
Special Programs:	
Educationally Deprived	116,737.91
Support Services:	
Pupils:	
Guidance	86,466.55
Student Therapy Services	331,062.66
Instructional Staff:	
Improvement of Instruction	475,129.23
Educational Media	42,341.89
General Administration:	
Executive Administration	292,547.05
Business:	
Fiscal Services	202,637.53
Operation and Maintenance of Plant	62,280.74

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	<u>General Fund</u>
Expenditures (Continued):	
Community Services:	
Other	<u>65,866.32</u>
Nonprogrammed Charges:	
Payments to State - Unemployment	<u>30,221.86</u>
Total Expenditures	<u>3,081,773.98</u>
Excess of Revenue Over (Under) Expenditures	<u>(12,295.13)</u>
Other Financing Sources:	
Transfers Out	(4,200.00)
Total Other Financing Sources (Uses)	<u>(4,200.00)</u>
Net Change in Fund Balances	<u>(16,495.13)</u>
Fund Balance - Beginning	<u>2,152,345.38</u>
FUND BALANCE - ENDING	<u><u>2,135,850.25</u></u>

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	<u>(16,495.13)</u>
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 exceeded capital outlays in the current period.	<u>(436.76)</u>
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	<u>(2,286.69)</u>
Change in Net Position of Governmental Activities	<u><u>(19,218.58)</u></u>

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014

	Enterprise Funds Food Service Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	2,508.15
TOTAL ASSETS	2,508.15
LIABILITIES:	
Current Liabilities:	
Accounts Payable	1,806.35
TOTAL LIABILITIES	1,806.35
NET POSITION:	
Unrestricted Net Position	701.80
TOTAL NET POSITION	701.80

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

EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	<u>Enterprise Funds Food Service Fund</u>
Operating Revenue:	
Food Sales:	
Student	<u>7,821.58</u>
Total Operating Revenue	<u>7,821.58</u>
Operating Expenses:	
Supplies	<u>53.61</u>
Cost of Sales - Purchased	<u>23,311.90</u>
Total Operating Expenses	<u>23,365.51</u>
Operating Income (Loss)	<u>(15,543.93)</u>
Nonoperating Revenue:	
Federal Grants	<u>11,305.64</u>
Total Nonoperating Revenue	<u>11,305.64</u>
Income (Loss) Before Transfers	<u>(4,238.29)</u>
Transfers In	<u>4,200.00</u>
Change in Net Position	<u>(38.29)</u>
Net Position - Beginning	<u>740.09</u>
NET POSITION - ENDING	<u><u>701.80</u></u>

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

**EAST DAKOTA EDUCATIONAL COOPERATIVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	Enterprise Funds Food Service Fund
Cash Flows from Operating Activities:	
Cash Receipts from Customers	7,821.58
Cash Payments to Suppliers of Goods and Services	(21,559.16)
Net Cash Provided (Used) by Operating Activities	(13,737.58)
Cash Flows from Noncapital Financing Activities:	
Transfers from General Fund	4,200.00
Operating Grants	11,305.64
Net Cash Provided (Used) from Noncapital Financing Activities	15,505.64
Net Increase (Decrease) in Cash and Cash Equivalents	1,768.06
Cash and Cash Equivalents at Beginning of Year	740.09
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,508.15
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(15,543.93)
Change in Assets and Liabilities:	
Accounts and Other Payables	1,806.35
Net Cash Provided (Used) by Operating Activities	(13,737.58)

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

NOTES TO THE FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

The East Dakota Educational Cooperative is a cooperative organized by three member school districts; Lennox School District 41-4, Brandon Valley School District 49-2, and the West Central School District 49-7, to provide educational services to students. Funding sources are provided through various state and federal grants along with tuition paid for each student. The East Dakota Educational Cooperative is a separate legal entity, distinct from the member school districts.

b. Basis of Presentation:Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through 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 minus liabilities equal net position). Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five percent of the corresponding total for all governmental funds combined, or
3. Management has elected to classify one or more governmental funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the cooperative, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

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

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 accrual basis of accounting is applied to the proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Cooperative, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2014 are grants from the state of South Dakota and revenue from member schools districts.

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

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

All proprietary 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. Capital Assets:

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

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

Government-Wide Statements:

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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	\$ 0.00	-----N/A-----	-----N/A-----
Improvements	\$ 10,000.00	Straight-line	15 yrs.
Buildings	\$ 50,000.00	Straight-line	50 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	5-10 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the 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.

e. 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.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

f. Program Revenues:

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. 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.

h. Cash and Cash Equivalents:

The Cooperative pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in three components.

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, 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.

j. 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.

k. 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:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

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

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

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

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

As of June 30, 2014, the Cooperative had the following investments. Except for the investment in SDFIT, for the General Fund, all investments are in an internal deposit and investment pool.

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
External Investment Pools:		
SDFIT	Unrated	<u>\$1,382,054.10</u>
TOTAL INVESTMENTS		<u>\$1,382,054.10</u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts, and counties.

The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Concentration of Credit Risk – The Cooperative places no limit on the amount that may be invested in any one issuer. More than 5 percent of the Cooperative's investments are in SDFIT (100%).

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

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

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year.

4. INVENTORY:

Inventory held for consumption is state at cost. Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out.

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 consumed. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2014, is as follows:

	Balance 07/01/2013	Increases	Decreases	Balance 06/30/2014
Governmental Activities:				
Capital Assets, being depreciated:				
Improvements	35,622.50			35,622.50
Leasehold Improvements	64,708.00			64,708.00
Machinery & Equipment	84,154.29	6,977.00		91,131.29
Total, being depreciated	184,484.79	6,977.00	0.00	191,461.79
Less Accumulated Depreciation for:				
Improvements	(35,622.50)			(35,622.50)
Leasehold Improvements	(20,028.70)	(1,540.67)		(21,569.37)
Machinery & Equipment	(58,583.16)	(5,873.09)		(64,456.25)
Total Accumulated Depreciation	(114,234.36)	(7,413.76)	0.00	(121,648.12)
Total Capital Assets, being depreciated, net	70,250.43	(436.76)	0.00	69,813.67
Governmental Activity Capital Assets, Net	70,250.43	(436.76)	0.00	69,813.67

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 4,986.34
Support Services	2,427.42
Total Depreciation Expense - Governmental Activities	\$ 7,413.76

6. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Accrued Compensated Absences	13,628.12	28,285.46	25,998.77	15,914.81	5,000.00
Total Governmental Activities	13,628.12	28,285.46	25,998.77	15,914.81	5,000.00
TOTAL PRIMARY GOVERNMENT	13,628.12	28,285.46	25,998.77	15,914.81	5,000.00

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Debt payable at June 30, 2014 is comprised of the following:

PRIMARY GOVERNMENT

Governmental Activities:

Compensated Absences:

Accrued leave balances for eligible employees.

Payment to be made by the fund that the payroll expenditures are charged to.

\$15,914.81

7. OPERATING LEASES

The Cooperative entered into an agreement for lease of the office and alternative school building with the East Dakota Educational Foundation. The lease is paid out of the General Fund.

The following are the minimum payments required for existing operating leases:

<u>Year</u>	<u>General Fund</u>
2015	\$ 45,600.00
2016	\$ 45,600.00
2017	\$ 45,600.00
2018	\$ 45,600.00

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 were as follows:

	<u>Transfers To:</u>
	<u>Business-Type Activities</u>
	Food Service
<u>Transfers From:</u>	<u>Funds</u>
Major Funds:	
General Fund	\$ 4,200.00

The Cooperative typically uses transfers to the Food Service Fund from the General Fund to supplement the operating income of the Food Service Fund.

9. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2014, 2013 and 2012, were \$110,498.76, \$135,581.97, and \$125,263.89, respectively, equal to the required contributions each year.

10. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2014, 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 coverage also includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance:

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

Worker's Compensation:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Unemployment Benefits:

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

During the year ended June 30, 2014, eight claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$30,221.86. At June 30, 2014, seven claims had been filed and were outstanding. It is estimated that, based upon historical trends, these claims will result in the future payment of unemployment benefits in the amount of approximately \$30,000.00. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

11. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2014, the Cooperative was involved in significant litigation as follows per the Cooperative's attorney:

"On or about January 21, 2014, EDEC commenced a lawsuit in state court in Minnehaha County, South Dakota against Youth Services International of South Dakota, Inc., a South Dakota Corporation (YSI), for breach of an Agreement for Educational Services (the Agreement) dated February 18, 2009. Specifically, EDEC has claimed that YSI failed to make payments to EDEC in the amount of \$249,835 through the term of the Agreement, which was to end on June 30, 2011, as required by the Agreement. Additionally, EDEC is claiming interest on the unpaid amount, which accrues at 10% per year under South Dakota statute. YSI has filed an Answer, denying EDEC's allegations. Discovery has commenced and some settlement discussions have taken place between the parties, through their respective attorneys."

12. SIGNIFICANT EVENT

During the 2013-2014 fiscal year the facility in Chamberlain was closed. This will change the operation of the entity in that other sources of income will be pursued to replace this project. However, it does not appear that this event has any significant impact on this audit report.

REQUIRED SUPPLEMENTARY INFORMATION
EAST DAKOTA EDUCATIONAL COOPERATIVE
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget -
				Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Tuition and Fees:				
Student Tuition	1,682,538.00	1,682,538.00	1,623,039.55	(59,498.45)
Earnings on Investments and Deposits	1,000.00	1,000.00	537.34	(462.66)
Other Revenue from Local Sources:				
Rentals	0.00	0.00	2,400.00	2,400.00
Services Provided Other LEAs	455,336.00	487,836.00	483,838.70	(3,997.30)
Other	212,118.00	212,118.00	223,184.03	11,066.03
Revenue from State Sources:				
Other State Revenue	405,461.00	591,531.00	437,477.51	(154,053.49)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received				
from Federal Government				
Through the State	298,022.00	298,022.00	249,602.00	(48,420.00)
Other Federal Revenue	49,758.00	49,758.00	49,399.72	(358.28)
Total Revenue	3,104,233.00	3,322,803.00	3,069,478.85	(253,324.15)
Expenditures:				
Instruction:				
Regular Programs:				
Other Regular Programs	1,611,015.00	1,611,015.00	1,376,482.24	234,532.76
Special Programs:				
Educationally Deprived	146,208.00	146,208.00	116,737.91	29,470.09
Support Services:				
Pupils:				
Guidance	95,908.00	128,408.00	86,466.55	41,941.45
Student Therapy Services	363,131.00	363,131.00	331,062.66	32,068.34
Instructional Staff:				
Improvement of Instruction	522,089.00	746,159.00	475,129.23	271,029.77
Educational Media	48,734.00	48,734.00	42,341.89	6,392.11
General Administration:				
Executive Administration	297,214.00	321,214.00	292,547.05	28,666.95
Business:				
Fiscal Services	218,350.00	218,350.00	202,637.53	15,712.47
Operation and Maintenance of Plant	113,300.00	113,300.00	62,280.74	51,019.26
Community Services:				
Other	66,344.00	66,344.00	65,866.32	477.68
Nonprogrammed Charges:				
Payments to State - Unemployment	15,000.00	30,000.00	30,221.86	(221.86)
Total Expenditures	3,497,293.00	3,792,863.00	3,081,773.98	711,089.02

REQUIRED SUPPLEMENTARY INFORMATION
EAST DAKOTA EDUCATIONAL COOPERATIVE
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
				<u>Positive (Negative)</u>
Excess of Revenue Over (Under)				
Expenditures	(393,060.00)	(470,060.00)	(12,295.13)	457,764.87
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(4,200.00)	(4,200.00)
Total Other Financing Sources (Uses)	0.00	0.00	(4,200.00)	(4,200.00)
Net Change in Fund Balances	(393,060.00)	(470,060.00)	(16,495.13)	453,564.87
Fund Balance - Beginning	2,152,345.38	2,152,345.38	2,152,345.38	0.00
FUND BALANCE - ENDING	1,759,285.38	1,682,285.38	2,135,850.25	453,564.87

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

Schedules of Budgetary Comparisons for the General Fund.

Note 1. Budgets and Budgetary Accounting:

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

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

Note 2. GAAP/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.