

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
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YEAR ENDED JUNE 30, 2018**

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FARIBAULT, MINNESOTA
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INTRODUCTORY SECTION

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
BOARD OF DIRECTORS
JUNE 30, 2018**

BOARD OF EDUCATION

| | |
|-------------------|------------|
| Margret Colangelo | Chair |
| Jolane Mohs | Vice-Chair |
| Yvette Marthaler | Secretary |
| Jennifer Jones | Treasurer |

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cannon Valley Special Education Cooperative
Faribault, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Cannon Valley Special Education Cooperative (the Cooperative), as of and for the year ended June 30, 2018, 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

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 control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Cannon Valley Special Education Cooperative as of June 30, 2018, and the respective change in financial position and budgetary comparison for the General Fund thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2018, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 10). Our auditors' opinion was not modified with respect to the restatement.

Report on Summarized Comparative Information

We have previously audited Cannon Valley Special Education Cooperative's 2017 financial statements of the governmental activities and the major fund information and we have expressed unmodified audit opinions on those audited financial statements in our report dated December 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in the District's total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information, although not 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.

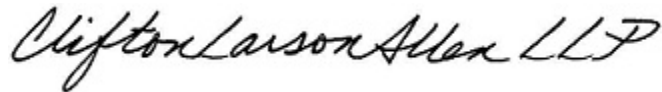
Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Cannon Valley Special Education Cooperative's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 December 27, 2018, on our consideration of Cannon Valley Special Education Cooperative’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative’s 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 Cannon Valley Special Education Cooperative’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
December 27, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

This section of the Cooperative's annual financial report presents our discussion and analysis of the Cooperative's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Cooperative's financial statements, which immediately follows this section.

OVERVIEW OF CANNON VALLEY SPECIAL EDUCATION COOPERATIVE SERVICES

Cannon Valley Special Education Cooperative (CVSEC) is a collaborative initiative of Faribault, Medford, Northfield and Owatonna Public Schools committed to implementing a therapeutic educational approach in a specialized setting and providing programming that meets the social, emotional and academic needs of all students.

The Cannon Valley Special Education Cooperative's primary mission is to provide all students with opportunities necessary to be successful in their home, school and community in a safe and nurturing environment. CVSEC

The following programs are provided by Cannon Valley Special Education Cooperative:

- SUN Program at Laura Baker (Students with Unique Needs) – serves students on the autism spectrum with complex needs.
- Alexander Learning Academy – serves students with emotional behavior disorders.
- STEP 18-21 Program – serves students 18-21 in their goal to live as independently as possible.

These programs provide highly individualized learning experiences for students kindergarten through age 21 identified as needing more structure, support, and modifications than can be accommodated in the traditional academic setting.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- General Fund revenues and other financing sources were \$5,710,242; the total expenditures were 5,778,763.
- General Fund balance was \$(57,521) at June 30, 2018.
- The fiscal year ending June 30, 2018 was the Cooperative's second year of operation. The long-term financial goal of the Cooperative is to grow a moderate fund balance to ensure reasonable and stable programming in the future.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the Cooperative:

- The first two statements are *Cooperative-wide financial statements* that provide both *short-term* and *long-term* information about the Cooperative's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Cooperative, reporting the Cooperative's operations in *more detail* than the Cooperative-wide statements.
- The *governmental funds statements* tell how basic services such as special education was financed in the *short-term* as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE

Net Position

The Cooperative's net position was \$(109,889) on June 30, 2018 (see Table A-1).

| | Governmental Activities as of June 30, | |
|----------------------------------|---|--------------|
| | 2018 | 2017 |
| Current and Other Assets | \$ 2,335,461 | \$ 5,047,578 |
| Capital Assets | 22,508 | 17,023 |
| Total Assets | 2,357,969 | 5,064,601 |
| Current Liabilities | 2,401,024 | 5,047,578 |
| Long-Term Liabilities | 66,834 | 17,023 |
| Total Liabilities | 2,467,858 | 5,064,601 |
| Net Position: | | |
| Net Investment in Capital Assets | (1,899) | - |
| Restricted | 101,122 | - |
| Unrestricted | (209,112) | - |
| Total Net Position | \$ (109,889) | \$ - |

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE (CONTINUED)

Changes in Net Position

The Cooperative's total revenues were \$5,710,242 for the year ended June 30, 2018. (See table A-2.) The total cost of all programs and services was \$5,813,296 for the year ended June 30, 2018. (See Table A-2.)

The following schedule presents details of the revenues, expenses, and the resulting change in net position.

| | Governmental Activities for the Fiscal Year Ended June 30, | |
|---|---|------------------|
| | <u>2018</u> | <u>2017</u> |
| Revenues | | |
| <u>Program Revenues</u> | | |
| Charges for Services | \$ 769,060 | \$ 767,190 |
| Operating Grants and Contributions | 4,853,306 | 4,177,068 |
| <u>General Revenues</u> | | |
| Unrestricted State Aid | 83,712 | - |
| Investment Earnings | 4,003 | - |
| Other | 161 | 1,276 |
| Total Revenues | <u>5,710,242</u> | <u>4,945,534</u> |
| Expenses | | |
| Administration | 1,350 | 554 |
| District Support Services | 328,528 | 362,560 |
| Regular Instruction | - | 157,131 |
| Special Education Instruction | 4,619,690 | 3,746,248 |
| Instructional Support Services | 6,358 | - |
| Pupil Support Services | 92,858 | 9,243 |
| Sites and Buildings | 759,676 | 669,798 |
| Interest and Fiscal Charges on Long-Term Liabilities | 4,836 | - |
| Total Expenses | <u>5,813,296</u> | <u>4,945,534</u> |
| Change in Net Position | (103,054) | - |
| Beginning Net Position | - | - |
| Restatement | (6,835) | - |
| Beginning Net Position, as Restated | (6,835) | - |
| Ending Net Position | <u>\$ (109,889)</u> | <u>\$ -</u> |

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUNDS

The financial performance of the Cooperative as a whole is reflected in its governmental fund.

GENERAL FUND

The General Fund includes all of the operations of the Cooperative. For the fiscal year ending June 30, 2018 revenues for the Cooperative's general fund were \$5,710,242 and expenditures for the Cooperative's general fund were \$5,778,763.

As the Cooperative completed the year, its general fund reported a fund balance of \$(57,521) in the current year.

The following schedule presents a summary of General Fund Revenues.

| | Year Ended | |
|----------------------------|----------------------|----------------------|
| | June 30, 2018 | June 30, 2017 |
| Local Sources: | | |
| Earnings on Investments | \$ 4,003 | \$ - |
| Other | 769,221 | 768,466 |
| State Sources | 4,937,018 | 4,177,068 |
| Total General Fund Revenue | \$ 5,710,242 | \$ 4,945,534 |

The following schedule presents a summary of General Fund Expenditures.

| | Year Ended | |
|------------------------|--------------------------|--------------------------|
| | June 30, 2018 | June 30, 2017 |
| Salaries | \$ 3,204,974 | \$ - |
| Employee Benefits | 1,205,007 | - |
| Purchased Services | 1,198,964 | 4,569,804 |
| Supplies and Materials | 144,469 | 120,154 |
| Capital Expenditures | 11,000 | 245,578 |
| Other Expenditures | 14,349 | 9,998 |
| Total Expenditures | \$ 5,778,763 | \$ 4,945,534 |

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

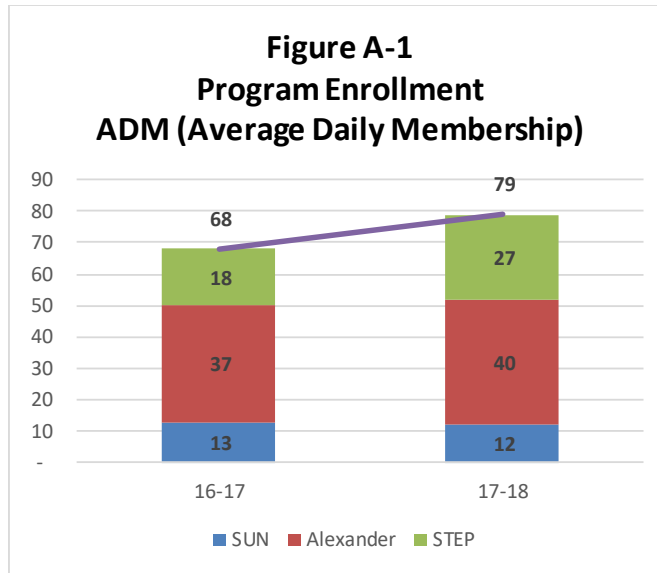
Actual revenues and expenditures were \$246,563 under the final budget.

**Table A-5
 General Fund Budget to Actual**

| | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> | <u>Percent Over (Under)</u> |
|---------------------------------------|---------------------|--------------------|--------------------------------------|---------------------------------|
| Revenue and Other Financing Sources | \$ 6,304,464 | \$ 5,721,242 | \$ (583,222) | -10.2% |
| Expenditures and Other Financing Uses | 6,115,422 | 5,778,763 | (336,659) | -5.8% |
| | <u>\$ 189,042</u> | <u>\$ (57,521)</u> | <u>\$ (246,563)</u> | |

Enrollment

The following graph shows the enrollment by program:



FACTORS BEARING ON THE COOPERATIVE'S FUTURE

- The Cooperative is dependent on state reimbursements and other grants with the remaining expenses billed to the member districts.
- Program enrollment is an important indicator of the stability of the Cooperative. All three programs had a waiting list for the majority of the 2017-18 school year.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Cannon Valley Special Education Cooperative, 2800 1st Avenue NW, Faribault, Minnesota 55021.

BASIC FINANCIAL STATEMENTS

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 STATEMENT OF NET POSITION
 JUNE 30, 2018**

| | Governmental Activities |
|---|--------------------------------|
| ASSETS | |
| Cash and Investments | \$ 880,658 |
| Receivables: | |
| Other Governments | 1,246,525 |
| Other | 9,741 |
| Prepaid Items | 198,537 |
| Capital Assets: | |
| Other Capital Assets, Net of Depreciation | 22,508 |
| Total Assets | 2,357,969 |
| LIABILITIES | |
| Salaries Payable | 414,518 |
| Accounts Payable | 5,021 |
| Due to Other Governmental Units | 1,973,443 |
| Long-Term Liabilities: | |
| Portion Due Within One Year | 8,042 |
| Portion Due in More Than One Year | 22,053 |
| Other Postemployment Benefits Liability | 44,781 |
| Total Liabilities | 2,467,858 |
| NET POSITION | |
| Net Investment in Capital Assets | (1,899) |
| Restricted for: | |
| State-Mandated Reserves | 101,122 |
| Unrestricted | (209,112) |
| Total Net Position | \$ (109,889) |

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018**

| <u>Functions</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Change in Net Position</u> |
|---|---------------------|---------------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Total Governmental Activities</u> |
| Governmental Activities | | | | |
| Administration | \$ 1,350 | \$ - | \$ - | \$ (1,350) |
| District Support Services | 328,528 | - | - | (328,528) |
| Special Education Instruction | 4,619,690 | 769,060 | 4,853,306 | 1,002,676 |
| Instructional Support Services | 6,358 | - | - | (6,358) |
| Pupil Support Services | 92,858 | - | - | (92,858) |
| Sites and Buildings | 759,676 | - | - | (759,676) |
| Interest and Fiscal Charges on Long-Term Liabilities | 4,836 | - | - | (4,836) |
| Total School District | <u>\$ 5,813,296</u> | <u>\$ 769,060</u> | <u>\$ 4,853,306</u> | (190,930) |
| General Revenues | | | | |
| State Aid Not Restricted to Specific Purposes | | | | 83,712 |
| Earnings on Investments | | | | 4,003 |
| Miscellaneous | | | | 161 |
| Total General Revenues | | | | <u>87,876</u> |
| Change in Net Position | | | | (103,054) |
| Net Position - Beginning | | | | - |
| Restatement | | | | (6,835) |
| Net Position - Beginning, as Restated | | | | <u>(6,835)</u> |
| Net Position - Ending | | | | <u>\$ (109,889)</u> |

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

| | Major Fund General | |
|--|-----------------------|--------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and Investments | \$ 880,658 | \$ 3,680,074 |
| Receivables: | | |
| Accounts Receivable | 9,741 | 900 |
| Due from Other Minnesota School Districts | 13,619 | - |
| Due from Minnesota Department of Education | 1,232,906 | 1,265,659 |
| Prepays | 198,537 | 100,945 |
| Total Assets | \$ 2,335,461 | \$ 5,047,578 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Salaries and Payroll Deductions Payable | \$ 414,518 | \$ - |
| Accounts and Contracts Payable | 5,021 | 7,380 |
| Due to Other Governmental Units | 1,973,443 | 5,040,198 |
| Total Liabilities | 2,392,982 | 5,047,578 |
| Fund Balance: | | |
| Nonspendable: | | |
| Prepays | 198,537 | 100,945 |
| Restricted for: | | |
| Medical Assistance | 101,122 | - |
| Unassigned | (357,180) | (100,945) |
| Total Fund Balance | (57,521) | - |
| Total Liabilities and Fund Balance | \$ 2,335,461 | \$ 5,047,578 |

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 GOVERNMENTAL FUNDS
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT
 OF NET POSITION
 JUNE 30, 2018**

| | | |
|--|----|----------|
| Total Fund Balance for Governmental Funds | \$ | (57,521) |
|--|----|----------|

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

| | | |
|--|--|--------|
| Equipment, Net of Accumulated Depreciation | | 22,508 |
|--|--|--------|

The District's Other Postemployment Benefits Liability and related Deferred Outflows and Inflows of Resources are recorded only on the Statement of Net Position. Balances at year-end are:

| | | |
|---|--|----------|
| Other Postemployment Benefits Asset (Liability) | | (44,781) |
|---|--|----------|

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

| | | |
|---------------------------------------|--|----------|
| Capital Lease Payable | | (24,407) |
| Severance and Health Benefits Payable | | (2,840) |
| Compensated Absences Payable | | (2,848) |
| | | (2,848) |

| | | |
|--|-----------|------------------|
| Total Net Position of Governmental Activities | \$ | (109,889) |
|--|-----------|------------------|

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

| | Major Fund General | |
|--|-----------------------|-----------|
| | 2018 | 2017 |
| REVENUES | | |
| Local Sources: | | |
| Earnings and Investments | \$ 4,003 | \$ - |
| Other | 769,221 | 768,466 |
| State Sources | 4,937,018 | 4,177,068 |
| Total Revenues | 5,710,242 | 4,945,534 |
| EXPENDITURES | | |
| Current: | | |
| Administration | 1,350 | 554 |
| District Support Services | 323,737 | 346,620 |
| Elementary and Secondary Regular Instruction | - | 157,131 |
| Special Education Instruction | 4,575,842 | 3,516,610 |
| Instructional Support Services | 6,358 | - |
| Pupil Support Services | 92,348 | 9,243 |
| Sites and Buildings | 759,676 | 669,798 |
| Capital Outlay | 11,000 | 245,578 |
| Debt Service: | | |
| Principal | 3,616 | - |
| Interest and Fiscal Charges | 4,836 | - |
| Total Expenditures | 5,778,763 | 4,945,534 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (68,521) | - |
| OTHER FINANCING SOURCES (USES) | | |
| Capital Lease Proceeds | 11,000 | - |
| Total Other Financing Sources (Uses) | 11,000 | - |
| Net Change in Fund Balance | (57,521) | - |
| FUND BALANCES | | |
| Beginning of Year | - | - |
| End of Year | \$ (57,521) | \$ - |

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balance - Total Governmental Funds \$ (57,521)

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, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:

| | |
|----------------------|---------|
| Capital Outlays | 11,000 |
| Depreciation Expense | (5,515) |

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.

| | |
|---|----------|
| Other Financing Sources - Capital Lease | (11,000) |
| Principal Payments - Capital Leases | 3,616 |

In the statement of activities, certain operating expenses - severance benefits, and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid). (5,688)

Other postemployment benefits expenditures in the governmental funds are measured by current year employer contributions. Other postemployment benefits expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources. (37,946)

| | |
|-------|----------------------------|
| Total | <u><u>\$ (103,054)</u></u> |
|-------|----------------------------|

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
 TO ACTUAL – GENERAL FUND
 YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual | Over (Under) |
|---------------------------------------|-------------------------|--------------|----------------|---------------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings and Investments | \$ 2,000 | \$ - | \$ 4,003 | \$ 4,003 |
| Other | 945,140 | 756,188 | 769,221 | 13,033 |
| State Sources | 5,007,759 | 5,548,276 | 4,937,018 | (611,258) |
| Total Revenues | 5,954,899 | 6,304,464 | 5,710,242 | (594,222) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | - | 1,350 | 1,350 | - |
| District Support Services | 287,517 | 332,530 | 323,737 | (8,793) |
| Special Education Instruction | 4,858,254 | 4,834,408 | 4,575,842 | (258,566) |
| Instructional Support Services | - | 46,000 | 6,358 | (39,642) |
| Pupil Support Services | 3,500 | 94,684 | 92,348 | (2,336) |
| Sites and Buildings | 724,628 | 806,450 | 759,676 | (46,774) |
| Capital Outlay | 81,000 | - | 11,000 | 11,000 |
| Debt Service: | | | | |
| Principal | - | - | 3,616 | 3,616 |
| Interest and Fiscal Charges | - | - | 4,836 | 4,836 |
| Total Expenditures | 5,954,899 | 6,115,422 | 5,778,763 | (336,659) |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | - | 189,042 | (68,521) | (257,563) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Capital Lease Proceeds | - | - | 11,000 | 11,000 |
| Total Other Financing Sources (Uses) | - | - | 11,000 | 11,000 |
| Net Change in Fund Balance | \$ - | \$ 189,042 | (57,521) | \$ (246,563) |
| FUND BALANCE | | | | |
| Beginning of Year | | | - | |
| End of Year | | | \$ (57,521) | |

See accompanying Notes to Financial Statements.

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Cannon Valley Special Education Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Cannon Valley Special Education Cooperative, hereafter the Cooperative, is a public agency established by a Joint Powers Agreement entered into pursuant to Minnesota Statutes, Section 471.59. The four member school districts are listed in the Joint Powers Agreement. The primary objective of the Cooperative is to provide, by a cooperative effort, comprehensive special educational programs and other related services as can be efficiently and effectively operated by its group of four member Independent Districts. The four member Independent Districts are Faribault, Medford, Northfield and Owatonna Public Schools. The governing body of the Cooperative consists of one District Board member representative appointed by the respective school board of each member district.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the Cooperative's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the Cooperative. In addition, the Cooperative's financial statements are to include all component units - entities for which the Cooperative is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the Cooperative. There are no other entities for which the Cooperative is financially accountable.

In accordance with Minnesota Statutes, the Cooperative's board of directors has elected to control or be financially accountable for extracurricular student activities. Accordingly, all accounts and transactions are included in the financial statements within the General Fund.

C. Basic Financial Statement Presentation

The Cooperative-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Cooperative.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational; or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Cooperative applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered a direct expense and is included in the corresponding program area in the Statement of Activities.

Separate Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. A six-month availability period is generally used for other fund revenue.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Description of Funds

The existence of the various Cooperative funds has been established by the State of Minnesota, Department of Education. The accounts of the Cooperative are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the fund included in this report is as follows:

Major Governmental Fund

General Fund – The General Fund is used to account for all financial resources. It includes all revenues and expenditures for general operation, special education programs, transportation, and capital expenditures.

E. Budgeting

The budgets presented in this report for comparison to actual amounts is presented in accordance with accounting principles generally accepted in the United States of America. Each June, the board of directors adopts an annual budget for the following fiscal year for the General Fund. Reported budget amounts represent the amended budget as adopted by the board of directors. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the budget is submitted to the Cooperative Board prior to July 1, for the fiscal year commencing July 1. The budget includes proposed expenditures and the means to finance them. The budget is legally enacted by board of directors' action. Revisions to budgeted amounts must be approved by the board of directors.

Total fund expenditures in excess of the budget require approval of the board of directors. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

F. Cash and Investments

Cash and Investments consists of deposits within interest bearing checking accounts and funds held with the Minnesota School District Asset Fund (MSDLAF). Funds held with MSDLAF are recorded at amortized cost.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the Cooperative. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

I. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District maintains a threshold level of \$5,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from and 3 to 20 years for equipment.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of improvable property.

J. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

K. Accrued Employee Benefits

Compensated Absences Payable

Three individuals are eligible for vacation benefits. The policy states that the individuals may carry over unused vacation days to be used in the following contract year. The amount calculated as compensated absences payable for June 30, 2018 is \$2,848.

Severance and Health Benefits Payable

Certain employee groups are eligible for HRA contribution benefits. The policy states that newly hired individuals are eligible to receive an annual HRA contribution from the Cooperative. The amount calculated as severance and health benefits payable for June 30, 2018 is \$2,840.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Other Postemployment Benefits

Under the provisions of the various employee and union contracts, the Cooperative provides health care benefits if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All amounts are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 75, at June 30, 2018.

M. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balance. Nonspendable portions of fund balance relate to prepaid items. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by resolution approved by the board of directors. The board of directors passed a resolution authorizing the Director of Special Services and the Business Manager to assign fund balances and its intended uses. Unassigned fund balances are considered the remaining amounts.

N. 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; natural disasters and workers compensation. The Cooperative purchases commercial insurance coverage for such risks. Settled claims resulting from these risks have not exceeded insurance coverage in the past fiscal year.

O. Net Position

Net position represents the difference between assets and liabilities in the Cooperative-wide financial statements. Net position is reported as restricted in the Cooperative-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

P. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which the summarized information was derived. Certain amounts in the prior year financial statements have been reclassified for comparative purposes with the presentation in the current year financial statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Cooperative’s deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

In accordance with applicable Minnesota Statutes, the Cooperative maintains deposits at financial institutions authorized by the board of directors.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The Cooperative’s deposits in financial institutions at June 30, 2018 were not entirely covered by federal depository insurance or by surety bonds and collateral, in accordance with Minnesota Statutes, as noted in the Schedule of Findings and Responses. The Cooperative was under collateralized by \$1,256,473 at June 30, 2018.

B. Investments

The Cooperative may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies that are registered under the Federal Investment Company Act of 1940, received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, with all of the investments having a final maturity of 13 months or less.
- General obligations of a state or local government with taxing powers rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rated “A” or better.
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks, corporations, or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2018, the Cooperative had the following investments:

| | Amount |
|--|------------|
| Minnesota School District Liquid Asset Fund Plus (MSDLAF+) | \$ 656,960 |

The MSDLAF+ is an external investment pool that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The MSDLAF+ elects to measure its investments at amortized cost.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The MSDLAF+ pool is rated AAAM by Standard & Poor's.

C. Balance Sheet Presentation

The deposits and investments are presented in the financial statements as follows:

| | |
|--|------------|
| Deposits | \$ 223,698 |
| Minnesota School District Liquid Asset Fund Plus (MSDLAF+) | 656,960 |
| Total Cash and Investments | \$ 880,658 |
| | |
| Cash and Investments - Statement of Net Position | \$ 880,658 |
| Total Cash and Investments | \$ 880,658 |

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Beginning Balance (As Restated) | Increases | Decreases | Ending Balance |
|--|---------------------------------------|-----------|-----------|-------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated | | | | |
| Capital Lease Equipment | \$ 17,023 | \$ 11,000 | \$ - | \$ 28,023 |
| Total Capital Assets, Being Depreciated | 17,023 | 11,000 | - | 28,023 |
| Accumulated Depreciation for: | | | | |
| Capital Lease Equipment | - | (5,515) | - | (5,515) |
| Total Accumulated Depreciation | - | (5,515) | - | (5,515) |
| Total Capital Assets, Being Depreciated, Net | 17,023 | 5,485 | - | 22,508 |
| Governmental Activities Capital Assets, Net | \$ 17,023 | \$ 5,485 | \$ - | \$ 22,508 |

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows at June 30, 2018:

Governmental Activities

| | |
|---|-----------------|
| Special Education Instruction | \$ 5,515 |
| Total Depreciation Expense, Governmental Activities | <u>\$ 5,515</u> |

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

| | <u>Principal Outstanding</u> | |
|---------------------------------------|--------------------------------|------------------|
| | <u>Due Within One Year</u> | <u>Total</u> |
| Capital Lease Payable | \$ 5,194 | \$ 24,407 |
| Severance and Health Benefits Payable | - | 2,840 |
| Compensated Absences Payable | 2,848 | 2,848 |
| | <u>\$ 8,042</u> | <u>\$ 30,095</u> |

B. Description of Long-Term Liabilities

Capital Lease

The District entered into three capital leases for copiers. Total future capital lease payments are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|--|------------------|
| 2019 | \$ 9,782 |
| 2020 | 9,782 |
| 2021 | 9,782 |
| 2022 | 4,030 |
| 2023 | 1,330 |
| Total Minimum Lease Payments | 34,706 |
| Less Amounts Representing Interest | 10,299 |
| Present Value of Net Minimum Lease Payments | <u>\$ 24,407</u> |

Compensated Absences Payable

Compensated absences payable consist of unused vacation days and sick leave payable to employees. Compensated absences are paid by the General Fund.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities

| | June 30, 2017 (As Restated) | Additions | Retirements | June 30, 2018 |
|------------------------------|--------------------------------|------------------|-----------------|------------------|
| Capital Lease Payable | \$ 17,023 | \$ 11,000 | \$ 3,616 | \$ 24,407 |
| Severance Payable | - | 2,840 | - | 2,840 |
| Compensated Absences Payable | - | 2,848 | - | 2,848 |
| Total | <u>\$ 17,023</u> | <u>\$ 16,688</u> | <u>\$ 3,616</u> | <u>\$ 30,095</u> |

NOTE 5 RESTRICTED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds.

A. Restricted for Medical Assistance

This restricted fund balance represents accumulated resources available to be used for Medical Assistance expenditures.

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The Cooperative operates a single-employer retiree defined benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouses through the Cooperative's health insurance plan. There are 72 active participants. Benefit and eligibility provisions are established through negotiations between the Cooperative and various unions representing Cooperative employees and are renegotiated at various times. The Cooperative accumulates no assets in a trust to pay OPEB benefits.

B. Contributions

Contribution requirements are also negotiated between the Cooperative and union representatives. The Cooperative contributes various amounts based on contracts in effect at retirement for eligible retired plan members. The Cooperative also contributes an implicit rate subsidy for retired plan members. This is due to the actual cost for retirees being higher than the average per-person premium for the entire group. For fiscal year 2018, the Cooperative contributed \$-0- to the plan.

C. Total OPEB Liability

The Cooperative's total OPEB liability was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Total OPEB Liability (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|--|
| Inflation | 2.50 % |
| Salary Increases | 3.00 % |
| Healthcare Cost Trend Rates | 6.50% Decreasing to 5.00% Over 6 Years |
| Dental Trend Rate | 4.00 % |

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.40%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

D. Changes in the Total OPEB Liability

| | |
|-------------------------|-------------------------|
| | Total OPEB Liability |
| Balance at July 1, 2016 | <u>\$ 6,835</u> |
| Changes for the Year: | |
| Service Cost | 36,474 |
| Interest | <u>1,472</u> |
| Net Changes | <u>37,946</u> |
| Balance at July 1, 2017 | <u><u>\$ 44,781</u></u> |

E. Total OPEB Liability Sensitivity

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | | | |
|------------------------------|-----------------------|-------------------------|-----------------------|
| | 1% Decrease 2.40 % | Discount Rate 3.40 % | 1% Increase 4.40 % |
| Total OPEB Liability (Asset) | <u>\$ 49,838</u> | <u>\$ 44,781</u> | <u>\$ 40,131</u> |

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Total OPEB Liability Sensitivity (Continued)

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

| | 1% Decrease | Selected Trend Rates | 1% Increase |
|------------------------------|------------------------|-------------------------------|------------------------|
| | | Healthcare Cost Trend Rate | |
| | 5.50% | 6.50% | 7.50% |
| | Decreasing to 4.00% | Decreasing to 5.00% | Decreasing to 6.00% |
| | | Dental Trend Rate | |
| | 3% | 4% | 5% |
| Total OPEB Liability (Asset) | \$ 37,404 | \$ 44,781 | \$ 54,002 |

F. OPEB Expense

For the year ended June 30, 2018, the Cooperative recognized OPEB expense of \$37,946.

NOTE 7 DEFINED CONTRIBUTION PLAN

The Cooperative provides eligible employees future retirement benefits through the Cooperative's 403(b) Plan (the Plan). Employees of the Cooperative are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a Cooperative match of employee contributions up to the qualifying amounts set forth by the Governing Board. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The Cooperative contributions for the year ended June 30, 2018 was \$4,978. The employee contributions was \$12,071 for the year ended June 30, 2018.

NOTE 8 FLEXIBLE BENEFIT PLAN

The Cooperative has a flexible benefit plan that is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the Cooperative are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 8 FLEXIBLE BENEFIT PLAN (CONTINUED)

Before the beginning of the plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the Cooperative is contingently liable for claims against the total amount of participants' annual contributions for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the Cooperative directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

All plan property and income attributable to that property is solely the property of the Cooperative, subject to the claims of the Cooperative's general creditors. Participants' rights under the plan are equal to those of general creditors of the Cooperative in an amount equal to eligible health care and dependent care expenses incurred by the participants. The Cooperative believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 9 COMMITMENTS AND CONTINGENCIES

A. Lease Commitments

The Cooperative has entered into various operating leases for professional and technical support, classrooms, and office space. Rent expense under annual operating leases for the year ended June 30, 2018 was approximately \$675,140.

Minimum lease commitments in effect at June 30, 2018 are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------|---------------------|
| 2019 | \$ 668,140 |
| 2020 | 668,140 |
| 2021 | 668,140 |
| Total Minimum Lease Payments | <u>\$ 2,004,420</u> |

B. State Programs

The Cooperative has Amounts received or receivable from state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year ended June 30, 2018, the Cooperative adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Implementation of this standard required the restatement of the July 1, 2017 net position of the governmental activities as follows:

| | Governmental Activities |
|--|----------------------------|
| Net Position, July 1, 2017, as Previously Stated | \$ - |
| Cumulative Affect of Application of GASB 75 | <u>(6,835)</u> |
| Net Position, July 1, 2017 as Restated | <u><u>\$ (6,835)</u></u> |

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REQUIRED SUPPLEMENTARY INFORMATION

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND REALTED RATIOS
 JUNE 30, 2018**

| | |
|--|-------------------------|
| Measurement Date | <u>July 1, 2017</u> |
| Total OPEB Liability | |
| Service Cost | \$ 36,474 |
| Interest on Total OPEB Liability | 1,472 |
| Net Change in Total OPEB Liability | <u>37,946</u> |
| Total OPEB Liability - Beginning | 6,835 |
| Total OPEB Liability - Ending | <u><u>\$ 44,781</u></u> |
| Covered Employee Payroll | \$ 2,984,851 |
| District's Net OPEB Liability as a Percentage of the Covered Employee Payroll | 1.50% |

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

Board of Directors
Cannon Valley Special Education Cooperative
Faribault, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Cannon Valley Special Education Cooperative (the Cooperative), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated December 27, 2018.

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

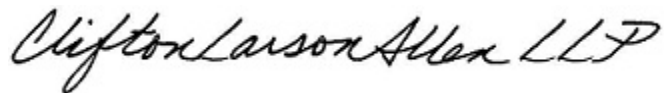
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 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*.

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 result 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 Cooperative’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Rochester, Minnesota
December 27, 2018



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Cannon Valley Special Education Cooperative
Faribault, Minnesota

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 respective financial position of the government activities and the major fund of Cannon Valley Special Education Cooperative (the Cooperative), as of June 30, 2018, and the related notes to the financial statements and have issued our report thereon dated December 27, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as noted in the Schedule of Findings and Responses as item 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced provisions in so far as they relate to accounting matters.

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

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Rochester, Minnesota
December 27, 2018



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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FAIRMONT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

Section I – Summary of Findings

| | |
|------------------------|--|
| 2018-001 | Adequate Collateral Coverage on Deposits |
| Condition: | Minnesota Statute §118A.03 states that if a school district desires to deposit an amount in excess of deposit insurance, it must obtain a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposit at the close of the banking day. |
| Criteria: | At June 30, 2018, the Cooperative had inadequate collateral coverage. The District was under the collateral requirement by \$1,256,473. |
| Context: | The Cooperative's deposits exceed the FDIC deposit insurance coverage. The Cooperative's bank has pledged collateral however fluctuations in market values affected the collateral value. |
| Effect: | The Cooperative is not in compliance with state statute. |
| Cause: | The Cooperative did not maintain adequate collateral coverage. |
| Recommendation: | We recommend the Cooperative continue to be diligent in reviewing collateral coverage. |

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Cooperative will continue to review collateral coverage on a monthly basis.

Official Responsible for Corrective Action:

Kim Washa, Finance and Payroll Coordinator, is the official responsible for ensuring completion of the corrective action.

Planned Completion Date for CAP:

The planned completion date is December 31, 2018.

Plan to Monitor Completion of CAP:

The Board of Directors will monitor this corrective action plan.

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FAIRMONT, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2018**

| | AUDIT | UFARS | DIFFERENCE | | AUDIT | UFARS | DIFFERENCE |
|--|--------------|--------------|------------|----------------------------------|-------|-------|------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$ 5,710,242 | \$ 5,710,245 | \$ (3) | Total Revenue | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 5,778,763 | \$ 5,778,767 | \$ (4) | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | | <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | \$ 198,537 | \$ 198,537 | \$ - | 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - |
| <i>Restricted/Reserved:</i> | | | | <i>Restricted/Reserved:</i> | | | |
| 403 Staff Development | \$ - | \$ - | \$ - | 407 Capital Projects Levy | \$ - | \$ - | \$ - |
| 406 Health and Safety | \$ - | \$ - | \$ - | 413 Projects Funded by COP | \$ - | \$ - | \$ - |
| 407 Capital Project Levy | \$ - | \$ - | \$ - | 467 LTFM | \$ - | \$ - | \$ - |
| 408 Cooperative Programs | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| 413 Projects Funded by COP | \$ - | \$ - | \$ - | 464 Restricted Fund Balance | \$ - | \$ - | \$ - |
| 414 Operating Debt | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 416 Levy Reduction | \$ - | \$ - | \$ - | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 417 Taconite Building Maintenance | \$ - | \$ - | \$ - | | | | |
| 424 Operating Capital | \$ - | \$ - | \$ - | 07 DEBT SERVICE | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| 427 Disabled Accessibility | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| 428 Learning and Development | \$ - | \$ - | \$ - | <i>Nonspendable:</i> | | | |
| 434 Area Learning Center | \$ - | \$ - | \$ - | 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - |
| 435 Contracted Alternative Programs | \$ - | \$ - | \$ - | <i>Restricted/Reserved:</i> | | | |
| 436 State Approved Alternative Programs | \$ - | \$ - | \$ - | 425 Bond Refunding | \$ - | \$ - | \$ - |
| 438 Gifted and Talented | \$ - | \$ - | \$ - | 451 QZAB and QSCB Payments | \$ - | \$ - | \$ - |
| 440 Teacher Development and Evaluations | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| 441 Basic Skills Programs | \$ - | \$ - | \$ - | 464 Restricted Fund Balance | \$ - | \$ - | \$ - |
| 445 Career and Technical Programs | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 448 Achievement and Integration | \$ - | \$ - | \$ - | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 449 Safe Schools Crime Levy | \$ - | \$ - | \$ - | | | | |
| 450 Pre-Kindergarten | \$ - | \$ - | \$ - | 08 TRUST | | | |
| 451 QZAB Payments | \$ - | \$ - | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| 452 OPEB Liability Not Held in Trust | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| 453 Unfunded Severance & Retirement Levy | \$ - | \$ - | \$ - | <i>Net Position:</i> | | | |
| 467 LTFM | \$ - | \$ - | \$ - | 422 Net Position | \$ - | \$ - | \$ - |
| 472 Medical Assistance | \$ 101,122 | \$ 101,122 | \$ - | | | | |
| <i>Restricted:</i> | | | | 20 INTERNAL SERVICE | | | |
| 464 Restricted Fund Balance | \$ - | \$ - | \$ - | Total Revenue | \$ - | \$ - | \$ - |
| <i>Committed:</i> | | | | Total Expenditures | \$ - | \$ - | \$ - |
| 418 Committed for Separation | \$ - | \$ - | \$ - | <i>Net Position:</i> | | | |
| 461 Committed Fund Balance | \$ - | \$ - | \$ - | 422 Net Position | \$ - | \$ - | \$ - |
| <i>Assigned:</i> | | | | | | | |
| 462 Assigned Fund Balance | \$ - | \$ - | \$ - | 25 OPEB REVOCABLE TRUST | | | |
| <i>Unassigned:</i> | | | | Total Revenue | \$ - | \$ - | \$ - |
| 422 Unassigned Fund Balance | \$ (357,180) | \$ (357,181) | \$ 1 | Total Expenditures | \$ - | \$ - | \$ - |
| | | | | <i>Net Position:</i> | | | |
| 02 FOOD SERVICE | | | | 422 Net Position | \$ - | \$ - | \$ - |
| Total Revenue | \$ - | \$ - | \$ - | | | | |
| Total Expenditures | \$ - | \$ - | \$ - | 45 OPEB IRREVOCABLE TRUST | | | |
| <i>Nonspendable:</i> | | | | Total Revenue | \$ - | \$ - | \$ - |
| 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Restricted/Reserved:</i> | | | | <i>Net Position:</i> | | | |
| 452 OPEB Liability Not Held in Trust | \$ - | \$ - | \$ - | 422 Net Position | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | \$ - | \$ - | \$ - | 47 OPEB DEBT SERVICE | | | |
| <i>Unassigned:</i> | | | | Total Revenue | \$ - | \$ - | \$ - |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| | | | | <i>Nonspendable:</i> | | | |
| 04 COMMUNITY SERVICE | | | | 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - |
| Total Revenue | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| Total Expenditures | \$ - | \$ - | \$ - | 425 Bond Refunding | \$ - | \$ - | \$ - |
| <i>Nonspendable:</i> | | | | 464 Restricted Fund Balance | \$ - | \$ - | \$ - |
| 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| <i>Restricted/Reserved:</i> | | | | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | | | | |
| 431 Community Education | \$ - | \$ - | \$ - | | | | |
| 432 E.C.F.E. | \$ - | \$ - | \$ - | | | | |
| 440 Teacher Development and Evaluations | \$ - | \$ - | \$ - | | | | |
| 444 School Readiness | \$ - | \$ - | \$ - | | | | |
| 447 Adult Basic Education | \$ - | \$ - | \$ - | | | | |
| 452 OPEB Liability Not Held in Trust | \$ - | \$ - | \$ - | | | | |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | \$ - | \$ - | \$ - | | | | |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - | | | | |

