

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
BOARD OF DIRECTORS
JUNE 30, 2017**

BOARD OF EDUCATION

Margret Colangelo	Chair
Yvette Marthaler	Vice-Chair
Jolane Mohs	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, 2017, 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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

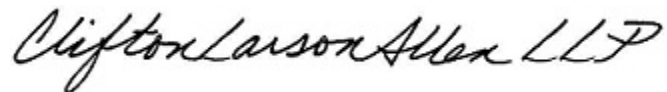
Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Cannon Valley Special Education Cooperative's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department 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.

Board of Directors
Cannon Valley Special Education Cooperative

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017, 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
December 26, 2017

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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, 2017**

This section of the Special Education 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, 2017. 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. Fiscal year 2016-17 was the Cooperative's first year of operation. All of the educational services are provided to students within the framework of policies and the joint powers agreement set by the organization. All applicable state and federal regulations are also considered in determining services.

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 2016-2017 fiscal year include the following:

- General Fund revenues and other financing sources were \$4,945,534, as were total expenditures.
- General Fund balance remained at \$0 at the end of the current year.
- The fiscal year ending June 30, 2017 was the Cooperative's first year of operation. The Cooperative's financial goal was to break even this fiscal year. 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, 2017**

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 \$-0- on June 30, 2017 (see Table A-1).

**Table A-1
 The District's Net Position**

	Governmental Activities as of June 30, 2017
Current and Other Assets	\$ 5,047,578
Total Assets	5,047,578
Current Liabilities	5,047,578
Total Liabilities	5,047,578
Net Position:	
Unrestricted	-
Total Net Position	\$ -

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE COOPERATIVE AS A WHOLE (CONTINUED)

Changes in Net Position

The Cooperative's total revenues were \$4,945,534 for the year ended June 30, 2017. (See table A-2.) The total cost of all programs and services was \$4,945,534 for the year ended June 30, 2017. (See Table A-2.) Total expenses equaled total revenues, and therefore there was no change in net position in the current year.

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

**Table A-2
 Change in Net Position**

		<u>Governmental Activities for the Fiscal Year Ended June 30, 2017</u>
Revenues		
<u>Program Revenues</u>		
Charges for Services	\$	767,190
Operating Grants and Contributions		4,177,068
<u>General Revenues</u>		
Other		1,276
Total Revenues		<u>4,945,534</u>
Expenses		
Administration		554
District Support Services		362,560
Regular Instruction		157,131
Special Education Instruction		3,746,248
Pupil Support Services		9,243
Sites and Buildings		669,798
Total Expenses		<u>4,945,534</u>
Change in Net Position		-
Beginning Net Position		-
Ending Net Position	<u>\$</u>	<u>-</u>

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2017**

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. Revenues for the Cooperative's general fund were \$4,945,534 in 2016-2017.

As the Cooperative completed the year, its general fund reported a fund balance of \$-0- in the current year.

The following schedule presents a summary of General Fund Revenues.

**Table A-3
 General Fund Revenues**

	Year Ended
	June 30, 2017
Local Sources:	
Other	\$ 768,466
State Sources	4,177,068
Total General Fund Revenue	\$ 4,945,534

The following schedule presents a summary of General Fund Expenditures.

**Table A-4
 General Fund Expenditures**

	Year Ended
	June 30, 2017
Purchased Services	\$ 4,569,804
Supplies and Materials	120,154
Capital Expenditures	245,578
Other Expenditures	9,998
Total Expenditures	\$ 4,945,534

Total General Fund Expenditures were \$4,945,534 in the current year.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

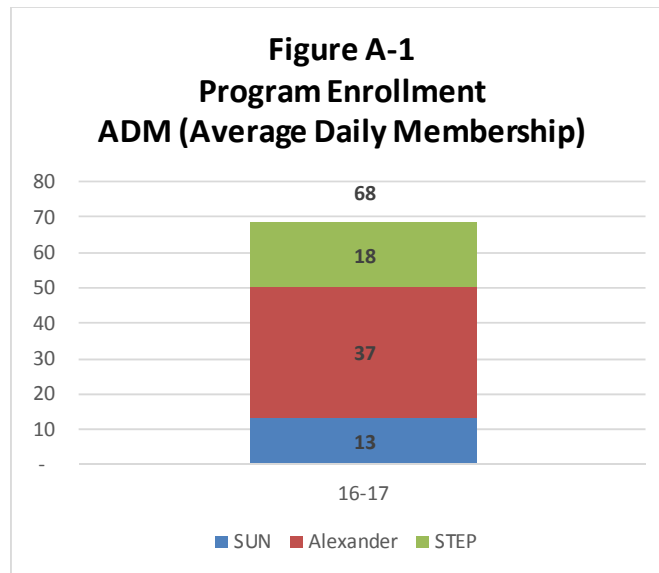
Actual revenues and expenditures were \$241,830 under the final budget.

**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	\$ 5,187,364	\$ 4,945,534	\$ (241,830)	-4.9%
Expenditures and Other Financing Uses	5,187,364	4,945,534	(241,830)	-4.9%
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 2016-17 school year.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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, 2017**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 3,680,074
Receivables:	
Other Governments	1,265,659
Other	900
Prepaid Items	100,945
Total Assets	5,047,578
LIABILITIES	
Accounts Payable	7,380
Due to Other Governmental Units	5,040,198
Total Liabilities	5,047,578
NET POSITION	
Unrestricted	-
Total Net Position	\$ -

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2017**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Change in</u>
			<u>Contributions</u>	<u>Net Position</u>
				<u>Total</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities				
Administration	\$ 554	\$ -	\$ -	\$ (554)
District Support Services	362,560	-	-	(362,560)
Regular Instruction	157,131	-	-	(157,131)
Special Education Instruction	3,746,248	184,052	4,177,068	614,872
Pupil Support Services	9,243	-	-	(9,243)
Sites and Buildings	669,798	583,138	-	(86,660)
Total School District	<u>\$ 4,945,534</u>	<u>\$ 767,190</u>	<u>\$ 4,177,068</u>	<u>(1,276)</u>
General Revenues				
Miscellaneous				1,276
Total General Revenues				<u>1,276</u>
Change in Net Position				-
Net Position - Beginning				-
Net Position - Ending				<u>\$ -</u>

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2017**

	Major Fund General
ASSETS	
Cash and Investments	\$ 3,680,074
Receivables:	
Accounts Receivable	900
Due from Minnesota Department of Education	1,265,659
Prepays	100,945
Total Assets	\$ 5,047,578
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts and Contracts Payable	\$ 7,380
Due to Other Governmental Units	5,040,198
Total Liabilities	5,047,578
Fund Balance:	
Nonspendable:	
Prepays	100,945
Unassigned	(100,945)
Total Fund Balance	-
Total Liabilities and Fund Balance	\$ 5,047,578

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, 2017**

	Major Fund General
REVENUES	
Local Sources:	
Other	\$ 768,466
State Sources	4,177,068
Total Revenues	4,945,534
EXPENDITURES	
Current:	
Administration	554
District Support Services	346,620
Elementary and Secondary Regular Instruction	157,131
Special Education Instruction	3,516,610
Pupil Support Services	9,243
Sites and Buildings	669,798
Capital Outlay	245,578
Total Expenditures	4,945,534
Excess (Deficiency) of Revenues Over (Under) Expenditures	-
FUND BALANCES	
Beginning of Year	-
End of Year	\$ -

See accompanying Notes to Financial Statements.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Other	250,000	890,137	768,466	(121,671)
State Sources	<u>3,129,203</u>	<u>4,295,227</u>	<u>4,177,068</u>	<u>(118,159)</u>
Total Revenues	<u>3,381,203</u>	<u>5,187,364</u>	<u>4,945,534</u>	<u>(241,830)</u>
EXPENDITURES				
Current:				
Administration	-	600	554	(46)
District Support Services	48,600	99,000	346,620	247,620
Elementary and Secondary Regular Instruction	157,000	157,000	157,131	131
Special Education Instruction	3,117,703	4,560,153	3,516,610	(1,043,543)
Pupil Support Services	7,900	9,300	9,243	(57)
Sites and Buildings	-	66,700	669,798	603,098
Capital Outlay	<u>50,000</u>	<u>294,611</u>	<u>245,578</u>	<u>(49,033)</u>
Total Expenditures	<u>3,381,203</u>	<u>5,187,364</u>	<u>4,945,534</u>	<u>(241,830)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE				
Beginning of Year			-	
End of Year			<u>\$ -</u>	

See accompanying Notes to Financial Statements.

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017**

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, 2017**

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 except those required to be accounted for in another fund. 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 Cash Equivalents

Cash consists of deposits within a Wells Fargo checking account.

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, 2017**

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. 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 from 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 their intended uses. Unassigned fund balances are considered the remaining amounts.

J. 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.

K. 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 their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE 2 DEPOSITS

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.

**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
 FARIBAULT, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017**

NOTE 2 DEPOSITS (CONTINUED)

A. Deposits (Continued)

The Cooperative's deposits in financial institutions at June 30, 2017 were entirely covered by federal depository insurance or by surety bonds and collateral, in accordance with Minnesota Statutes, except as noted in the Schedule of Findings and Responses.

B. Balance Sheet Presentation

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

Deposits		\$ 3,680,074
Total Cash and Investments		\$ 3,680,074
Cash and Investments - Statement of Net Position		\$ 3,680,074
Total Cash and Investments		\$ 3,680,074

NOTE 3 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, 2017 was approximately \$602,140.

Minimum lease commitments in effect at June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 532,140
2019	525,140
2020	525,140
2021	525,140
Total Minimum Lease Payments	\$ 2,107,560

B. State Programs

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.

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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 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, 2017, and the related notes to the financial statements, which collectively comprise Cannon Valley Special Education Cooperative's basic financial statements, and have issued our report thereon dated December 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cannon Valley Special Education 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 Cannon Valley Special Education Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cannon Valley Special Education 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.

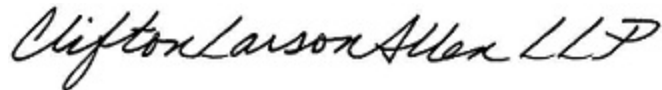
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Cannon Valley Special Education Cooperative’s financial statements are free of material misstatements, 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

Austin, Minnesota
December 26, 2017

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, as of June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated December 26, 2017.

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 Cannon Valley Special Education 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 2017-001. 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 Cannon Valley Special Education Cooperative's noncompliance with the above-referenced provisions.

Cannon Valley Special Education Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. '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

Austin, Minnesota
December 26, 2017

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**CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FAIRMONT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

Section I – Summary of Findings

2017-001	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, 2017, the Cooperative had inadequate collateral coverage. The District was under the collateral requirement by \$69,875.
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:

Colleen Mertesdorf, Director of Finance, is the official responsible for ensuring completion of the corrective action.

Planned Completion Date for CAP:

The planned completion date is December 31, 2017.

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, 2017**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 4,945,534	\$ 4,945,536	\$ (2)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 4,945,534	\$ 4,945,535	\$ (1)	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	\$ 100,945	\$ 100,945	\$ -	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 OZAB 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 OZAB 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	\$ -	\$ -	\$ -				
<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	\$ (100,945)	\$ (100,945)	\$ -	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	\$ -	\$ -	\$ -				

