Cooperative Educational Service Agency No. 9

Financial Statements and Supplementary Information

Year Ended June 30, 2016

WIPFLi LLP
CPAs and Consultants

Cooperative Educational Service Agency No. 9

Financial Statements and Supplementary Information

Year Ended June 30, 2016

Table of Contents

Independent Auditor's Report 1

Financial Statements
- Statement of Net Position 4
- Statement of Revenues, Expenses, and Changes in Net Position 5
- Statement of Cash Flows 6
- Statement of Plan Net Position 7
- Statement of Changes in Plan Net Position 8
- Notes to Financial Statements 9

Required Supplementary Information
- Schedule of Changes in the Agency's OPEB Liability and Related Ratios 28
- Schedules of the Employer's Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions - Wisconsin Retirement System 29

Supplementary Financial Information
- Schedule of Expenditures of Federal Awards 30
- Schedule of State Financial Assistance 31
- Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance 32

Other Reports
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 33
- Independent Auditor's Report on Compliance For Each Major Federal and State Program and on Internal Control Over Compliance 35
- Schedule of Findings and Questioned Costs 37
- Schedule of Prior Audit Findings 40

Financial Statements

WIPFLi LLP

Independent Auditor's Report

Board of Control
Cooperative Educational Service Agency No. 9
Tomahawk, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and remaining fund information of Cooperative Educational Service Agency No. 9 (the "Agency") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency'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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 business-type activities and remaining fund information of Cooperative Educational Service Agency No. 9 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2016 the Agency adopted new accounting guidance, GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the schedules of changes in the agency's OPEB liability and related ratios and schedules of employer's proportionate share of the net pension liability (asset) and employer contributions - Wisconsin Retirement System on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate 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. In our opinion, the schedules of expenditures of federal awards and state financial assistance are 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 January 10, 2017, on our consideration of the Agency'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

January 10, 2017
Rhinelander, Wisconsin

Cooperative Educational Service Agency No. 9

Statement of Net Position

June 30, 2016

Assets and Deferred Outflows of Resources	
Current assets:	
Cash and investments	$836,987
Due from other governments	1,278,258
Restricted cash and investments	37,656
Total current assets	2,152,901
Noncurrent assets:	
Capital assets not being depreciated	36,519
Capital assets being depreciated	1,307,973
Less - Accumulated depreciation	(530,433)
Total capital assets, net of accumulated depreciation	814,059
Due from other governments	55,554
Net other postemployment benefit asset	27,642
Total noncurrent assets	897,255
Deferred outflows of resources:	
Related to other postemployoment benefit	55,854
Related to pension	1,185,961
Total deferred outflows of resources	1,241,815
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$4,291,971
Liabilities, Deferred Inflows of Resources, and Net Position	
Current liabilities:	
Accounts payable	$199,878
Accrued and other liabilities:	
Payroll, payroll taxes, and insurance	87,601
Interest	1,713
Due to other governments	350,489
Unearned revenue	539,809
Current portion of long-term obligations	141,096
Total current liabilities	1,320,586
Noncurrent liabilities:	
Notes payable	47,762
Capital lease payable	61,578
Net pension liabilty	222,430
Compensated absences	242,552
Total noncurrent liabilities	574,322
Total liabilities	1,894,908
Deferred inflows of resources - Related to pensions - WRS	468,100
Net position:	
Net investment in capital assets	747,920
Unrestricted	1,181,043
Total net position	1,928,963
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$4,291,971

See accompanying notes to financial statements.

Cooperative Educational Service Agency No. 9

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2016

Operating revenues:	
Charges for services	$4,589,114
Operating grants and contributions	3,548,224
Total operating revenues	8,137,338
Operating expenses:	
Instruction:	
Vocational	98,563
Special education	891,693
Total instruction	990,256
Support services:	
Pupil services	375,388
Instructional staff services	4,917,156
General administration services	324,920
Business services	882,748
Operations and maintenance	78,280
Central services	42,940
Insurance	17,308
Agency operations - Unallocated	360,005
Depreciation - Unallocated	26,786
Total support services	7,025,531
Total operating expenses	8,015,787
Operating income	121,551
Nonoperating income (expense):	
Interest and investment earnings	3,445
Interest expense	(6,748)
Assessment for capital debt retirement	19,303
Total nonoperating income (expense)	16,000
Change in net position	137,551
Net position - Beginning of year, as restated	1,791,412
Net position - End of year	$1,928,963

Cooperative Educational Service Agency No. 9

Statement of Cash Flows

For the Year Ended June 30, 2016

Increase (decrease) in cash and investments:	
Cash flows from operating activities:	
Cash received for services	$4,221,269
Operating grants received	3,492,374
Cash paid to suppliers	(4,594,669)
Cash paid to employees for services	(3,450,758)
Net cash used by operating activities	(331,784)
Cash flows from noncapital financing activities:	
Principal paid on noncapital debt	(50,434)
Interest paid on noncapital debt	(4,716)
Net cash used in noncapital financing activities	(55,150)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(15,484)
Principal paid on capital lease	(8,884)
Interest paid on capital lease	(2,616)
Collection of assessment due from other governments	17,770
Net cash used in capital and related financing activities	(9,214)
Cash flows from investing activities - Interest and investment earnings	3,445
Net decrease in cash and investments	(392,703)
Cash and investments at beginning of year	1,267,346
Cash and investments at end of year	$874,643
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$121,551
Adjustments to reconcile operating income to net cash used in operating activities:	
Provision for depreciation	26,786
Changes in operating assets and liabilities:	
Due from other governments	(649,719)
Net other postemployment benefit asset	26,859
Deferred outflows	(901,130)
Deferred inflows	468,100
Accounts payable	(111,525)
Accrued salaries and related items	(38,672)
Due to other governments	125,600
Unearned revenue	100,424
Net pension liability (asset)	504,616
Compensated absences	(4,674)
Total adjustments	(453,335)
Net cash used in operating activities	($331,784)

See accompanying notes to financial statements.

Cooperative Educational Service Agency No. 9

Statement of Plan Net Position

June 30, 2016

	Employee Benefit Trust Other Postemployment Benefits
Assets - Cash and investments	$397,465
TOTAL ASSETS	$397,465
Net position - Restricted for OPEB	397,465
TOTAL NET POSITION	$397,465

Cooperative Educational Service Agency No. 9

Statement of Changes in Plan Net Position

June 30, 2016

	Employee Benefit Trust
	Other Postemployment Benefits
Additions:	
Employer contributions	$55,854
Investment earnings	1,125
Total additions	56,979
Deductions - Postemployment benefits	45,159
Change in plan net position	11,820
Plan net position - Beginning of year	385,645
Plan net position - End of year	$397,465

See accompanying notes to financial statements.

Note 1: Summary of Significant Accounting Policies

Introduction

The financial statements of Cooperative Educational Service Agency No. 9 (the "Agency") have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Agency are described below.

Reporting Entity

The Agency is an agency formed under Chapter 116 of the Wisconsin Statutes. Cooperative educational service agencies are designed to serve educational needs in all areas of Wisconsin by serving as a link both between school districts and between school districts and the State. Cooperative educational service agencies may provide leadership and coordination services for school districts, including such programs as curriculum development assistance, school district management development, coordination of vocational education and exceptional education, research, special student classes, human growth and development, data collection, processing and dissemination, and in-service programs. The Agency is governed by a Board of Control composed of 11 school board members who are elected from the districts within the Agency's boundaries.

This report includes all of the funds of the Agency. The reporting entity for the Agency consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. This report does not contain any component units.

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement is effective for periods beginning after June 15, 2017. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Agency 's early implementation of GASB Statement No. 75 did have an impact on the Agency's financial statements for the fiscal year ended June 30, 2016, as described in Notes 8 and 10.

Basis of Presentation

The statement of net position and the statements of revenues, expenses, and changes in net position and cash flows present financial information about the Agency's business-type activities. These statements include the financial activities of the overall Agency in its entirety. Eliminations have been made to minimize the double counting of internal transactions.

Assets legally held in trust for the Agency's postemployment benefits are accounted for in an employee benefit trust fund.

Measurement Focus and Basis of Accounting

The 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

Note 1: Summary of Significant Accounting Policies (Continued)

Deposits and Investments

The Agency's cash and investments are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less and shares in the local government investment pool. Cash and investment balances for individual funds are pooled unless maintained in segregated accounts.

State Statutes permit the Agency to invest available cash balances, other than debt service funds, in time deposits (maturing in not more than three years) of authorized depositories, U.S. Treasury obligations, U.S. agency issues, municipal obligations within Wisconsin, high-grade commercial paper, and the local government pooled investment fund administered by the state investment board.

Funds held in the Employee Benefit Trust Fund to provide for postemployment health care benefits and other postemployment benefits may be invested in any kind of property or type of investment consistent with the prudent investor rule set forth in WI Stat. 881.01. This rule requires the trustee of an Employee Benefit Trust Fund to exercise reasonable care, skill, and caution when investing and managing the assets of the trust.

All investments are stated at fair market value. The investment in the local government investment pool is reported at net amortized cost based on information provided by the State of Wisconsin Investment Board.

Receivables

All accounts receivable are shown at gross amounts, and, where appropriate, are reduced by an allowance for uncollectible amounts. No allowance for uncollectible accounts has been provided since such allowance would not be material.

Capital Assets

Capital assets are recorded at historical cost, or estimated historical cost for assets for which actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Agency maintains a threshold level of $5,000 or more for capitalizing capital assets. The system for accumulation of capital assets cost data does not provide the means for determining the percentage of assets valued at actual cost and those valued at estimated cost.

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 no longer needed by the Agency, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 50 years for buildings and three to seven years for equipment and vehicles. Depreciation expense that can be specifically identified by function is included in direct expenses of each function.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Capital assets not being depreciated include land.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

The Agency does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots, which would be classified as infrastructure. Such items are considered to be part of the cost of buildings or other improvable property.

Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has two items that qualified for reporting in this category. The Agency reports deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and Agency contributions to pension plans subsequent to the measurement date of the collective net pension liability. The Agency reports deferred outflows of resources for its proportionate shares of collective deferred outflows of resources related to pensions and Agency contributions to pension and OPEB plans subsequent to the measurement date of the respective liabilities (assets).

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Agency reports deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions.

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

Vacation - Employees are granted vacation in varying amounts. Administrative staff are allowed to accumulate up to 15 days of vacation, which will be paid upon termination or resignation. Otherwise, the Agency does not allow unused vacation to accumulate and vest.

Retirement Plans - Agency employees participate in the Wisconsin Retirement System. All contributions made by the Agency on behalf of its employees are reported as expenditures when paid.

Accumulated Sick Pay - Depending on the contract, sick leave may be accumulated up to a maximum of 102 to 110 days. Accumulated sick leave does not vest.

Note 1: Summary of Significant Accounting Policies (Continued)

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts (Continued)

Other Postemployment Benefits - As provided in applicable negotiated contracts, Agency employees meeting a minimum age and length of service requirements may utilize accumulated sick leave to participate in the Agency's group health insurance program upon retirement until they reach age 65.

Agency Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS), and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Restricted Assets

Restricted assets are cash and investments whose use is limited by legal requirements.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted in the financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use externally restricted resources first.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services to participating school districts. The principal operating revenues are federal and state grants and charges for services. Operating expenses include the direct costs of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Subsequent Events

Subsequent events have been evaluated through January 10, 2017, which is the date the financial statements were available to be issued.

Note 2: Stewardship and Accountability

Budgetary Accounting

Operating budgets are adopted each fiscal year in accordance with Section 65.90 of the Wisconsin Statutes. The legally adopted budget and budgetary expenditure control is exercised at the function level for all cost centers. Budget amounts may be amended by Board of Control resolution. There were no supplemental appropriations during the year. Appropriations lapse at year-end unless specifically carried over.

The Agency follows these procedures in establishing the annual budget:

- Upon approval by the Professional Advisory Committee (PAC) executive committee, full PAC, and Board of Control, funding formulas are established for developing annual service budgets.

- Based on requests from CESA 9 school districts and agency staff, agency administration prepares and recommends budget proposals to the Board of Control.

- The Board of Control reviews and approves the proposed budgets, including expenditures and the means of financing them (revenue) for the July 1 through June 30 fiscal year.

- Appropriations lapse at year-end unless authorized as a carryover by the Board of Control.

Note 3: Cash and Investments

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. As of June 30, 2016, $329,642 of the Agency's bank balance of $865,934 was exposed to custodial credit risk as uninsured.

Investments

Interest Rate Risk - The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. State Statutes limit the maturity of commercial paper and corporate bonds to not more than seven years.

Credit Risk - State Statutes limit investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ratings are not required, or available, for mutual funds or the Wisconsin Local Government Investment Pool (LGIP). The Agency has no investment policy that would further limit its investment choices.

Cooperative Educational Service Agency No. 9

Notes to Financial Statements

Note 3: Cash and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk: For an investment, concentration of credit risk is the risk of loss that may be caused by the Agency's investment in a single issuer. The Agency does not have an investment policy for concentration of credit risk. More than 5% of the Agency's investments are in annuity contracts with American United Life Insurance Company. This investment is 96.4% of the Agency's total investments. The investment with American United Life Insurance Company also represents 100% of the total investments reported in the OPEB Employee Benefit Trust Fund.

The Agency's cash and investment balances at June 30, 2016, were as follows:

	Maturities	Fair Value
Local Government Investment Pool	< 30 days average	$14,606
AUL Annuity Contract		391,468
Total investments		406,074
Cash deposits with financial institutions carrying amount		865,934
Petty cash		100
Less - Cash and investments held by fiduciary funds		(397,465)
Cash and investments reported on statement of net position		$874,643

The Agency is a participant in the Local Government Investment Pool (LGIP), which is authorized in Wisconsin Statutes 25.14 and 25.17 under the oversight of the State of Wisconsin Investment Board. The LGIP is not registered with the SEC as an investment company. The LGIP operates and reports to participants on the amortized cost basis. LGIP pool shares are bought and redeemed at $1 based on the amortized cost of the investments in the LGIP. The investment in the LGIP is not subject to the fair value hierarchy disclosures.

Restricted Cash

Restricted cash of $66,730 at June 30, 2016, represents amounts that have been assessed and collected in advance for future debt service payments.

Cooperative Educational Service Agency No. 9

Notes to Financial Statements

Note 4: Capital Assets

Capital asset balances and activity for the year ended June 30, 2016, were as follows:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Capital assets not being depreciated - Land	$36,519	$0	$0	$36,519
Capital assets being depreciated:				
Buildings and building improvements	1,181,533			1,181,533
Vehicles	17,770		17,770	
Furniture and equipment	110,956	15,484		126,440
Total capital assets being depreciated	1,310,259	15,484	17,770	1,307,973
Less accumulated depreciation for:				
Buildings and building improvements	395,815	23,630		419,445
Vehicles	17,770		17,770	
Furniture and equipment	107,832	3,156		110,988
Total accumulated depreciation	521,417	26,786	17,770	530,433
Total capital assets being depreciated, net of accumulated depreciation	788,842	(11,302)		777,540
Capital assets - Net	$825,361	($11,302)	$0	$814,059

Depreciation expense was charged as follows:

Unallocated	$26,786

Note 5: Long-Term Obligations

Long-term obligations of the Agency at June 30, 2016, were as follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts Due Within One Year
Notes payable	$113,537	$0	$50,435	$63,102	$15,340
Capital leases	75,023		8,882	66,141	4,563
Compensated absences	368,419	121,193	125,867	363,745	121,193
Totals	$556,979	$121,193	$185,184	$492,988	$141,096

All long-term debt is being collected through charges to participating school districts within the Agency's district either by payments made up front or as a percentage of wages paid for services. This particular debt is a refinancing of the Wisconsin Retirement System's unfunded liability. Long-term debt at June 30, 2016, is composed of the following individual issues:

Description	Issue Date	Interest Rate (%)	Date of Maturity	Balance 6/30/2016
Notes payable	1/27/2003	4.5%	1/27/2023	$63,102

Aggregate cash flow requirements for the retirement of long-term principal and interest, based on an interest rate of 4.5% on June 30, 2016, follows:

Year Ended June 30	Principal	Interest	Total
2017	$15,340	$2,583	$17,923
2018	16,043	1,881	17,924
2019	16,777	1,147	17,924
2020	14,942	379	15,321
Totals	$63,102	$5,990	$69,092

Note 6: Capital Leases, As Lessee

The Agency leases its building from the City of Tomahawk. Capital assets include the following amounts for leases that have been capitalized:

Building	$1,181,533
Less - Accumulated amortization	419,446
Total	$762,087

Lease amortization is included in depreciation expense.

Future minimum payments, by year and in the aggregate, assuming no prepayment, consist of the following as of June 30, 2016:

2017	$5,749
2018	11,498
2019	11,498
2020	11,497
2021	11,500
2022-2023	23,004
Total minimum lease payments	74,746
Amount representing interest	8,605
Present value of net minimum lease payments	66,141
Less - Current portion	4,563
Long-term obligations under capital lease	$61,578

This lease is being charged to the school districts within the Agency's territory per an agreement established between the Agency and the districts. Districts are billed semi-annually. During the year ended June 30, 2016, $6,024 has been received from districts for future lease payments.

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS)

Plan Description - The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government, and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at http://etf.wi.gov/publications/cafr.htm.

Vesting - For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits Provided - Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings are the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS) (Continued)

Post-Retirement Adjustments - The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0%	10%
2008	6.6%	0%
2009	(2.1%)	(42%)
2010	(1.3%)	22%
2011	(1.2%)	11%
2012	(7.0%)	(7%)
2013	(9.6%)	9%
2014	4.7%	25%
2015	2.9%	2%

Contributions - Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, executives, and elected officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized $144,415 in contributions from the employer.

Contribution rates as of June 30, 2016 are:

Employee Category	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives and Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions - At June 30, 2016, the Agency reported a liability of $222,430. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 30, 2014, rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the Agency's proportion was .01368815%, which was an increase of .00036996% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Agency recognized pension expense of $272,511.

At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$36,612	$468,100
Changes in assumptions	155,622	
Net differences between projected and actual earnings on pension plan investments	907,389	
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,927	
Employer contributions subsequent to the measurement date	70,411	
Total	$1,185,961	$468,100

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued) - $70,411 reported as deferred outflows related to pension resulting from the Agency's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30	Increase (Decrease) in Pension Expense
2016	$176,279
2017	176,279
2018	176,279
2019	128,389
2020	(9,776)

Actuarial Assumptions - The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the investment:

Actuarial Valuation Date	December 31, 2014
Measurement Date of Net Pension Liability (Asset)	December 31, 2015
Actuarial Cost Method	Entry Age
Asset Valuation Method	Fair Market Value
Long-Term Expected Rate of Return	7.2%
Discount Rate	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-Retirement Adjustments*	2.1%

**No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience, and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 - 2011. The total pension liability for December 31, 2015, is based upon a roll-forward of the liability calculated from the December 31, 2014, actuarial valuation.

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS) (Continued)

Actuarial Assumptions (Continued) - Long-Term Expected Return on Plan Assets: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Real Rate of Return	Target Allocation
Core Fund		
U.S. Equities	4.7%	23%
International Equities	5.6%	22%
Fixed Income	1.6%	37%
Inflation Sensitive Assets	1.4%	20%
Real Estate	3.6%	7%
Private Equity/Debt	6.5%	7%
Multi-Asset	3.8%	4%
Variable Fund		
U.S. Equities	4.7%	70%
International Equities	5.6%	30%

Single Discount Rate: A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 7: Employee Retirement Plans - Wisconsin Retirement System (WRS) (Continued)

Actuarial Assumptions (Continued) - Sensitivity of the Agency's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate: The following presents the Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20%, as well as what the Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
District's proportionate share of the net pension liability (asset)	$1,560,127	$222,430	($822,335)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at http://etf.wi.gov/publications/cafr.htm.

Note 8: Other Postemployment Benefits

Plan Description - The Agency administers a single-employer defined benefit health care plan. The plan provides medical insurance benefits to eligible retirees and their spouses through the Agency's group medical insurance plan, which covers both active and retired members. Benefit provisions are established through Board policy. The eligibility requirements are based on the retiree's position, years of service, and age at retirement. The plan does not issue a stand-alone report.

The contribution requirements of plan members are based on Board policy in effect on the date of retirement. The Agency's contribution is established annually based on an amount to pay current premiums and an additional amount to prefund benefits.

Benefits Provided - Benefits provided to retirees are as follows:

- Administrators - For administrators at least 57 years of age with at least 20 years of service or administrators with at least 10 years of service and a minimum 59 years old, the Agency will make a contribution equal to the amount of the last year of employment until the retiree is eligible for Medicare.

- Non-Certified Staff - For non-certified staff that are at least 57 years old and have 15 years of service, the Agency will contribute to a HRA account that can be used for coverage in the Agency's medical plan, an external medical plan, or for any other healthcare expenses. The retiree's final per diem rate is multiplied by the number of sick days accumulated at retirement date. A maximum of 100 sick days are allowed to be accumulated.

Note 8: Other Postemployment Benefits (Continued)

Benefits Provided (Continued)

- Certified Staff - For certified staff that are at least 57 years old with 15 years of service or were involuntarily terminated yet still WRS eligible, the Agency will provide one of two options. The first option allows for a contribution to a HRA account based on the retiree's final per diem rate and a maximum of 60 accumulated sick days. The second option allows for a set contribution plus one percent per year into a HRA account. This HRA can be used to participate in the Agency's medical plan, an external medical plan, or any other expenses related to healthcare.

Employees Covered by the Benefit Terms - At June 30, 2015, the measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	3
Active employees	34
Total participating employees	37

Net OPEB Asset - The District's net OPEB asset of $27,642 was measured as of June 30, 2015, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total OPEB liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial Cost Method	Unit Credit
Discount Rate	4.5%
Healthcare cost trend rate	7.5% decreasing by .5% per year down to 6.5%, then by .1% per year down to 5%, and level thereafter

The discount rate is based on the Bond Buyer Go 20-Bond Municipal Bond Index published by the Federal Reserve for the week closest to, but not later than the measurement date. Mortality rates are based upon the Wisconsin Retirement System (WRS) 2012 Mortality Table Projected to 2017. The mortality table and other significant assumptions are based on the WRS's actuarial experiences study from 2009 to 2011.

Note 8: Other Postemployment Benefits (Continued)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at July 1, 2015	$371,161	$380,717	($9,556)
Changes for the year:			
Service cost	21,389		21,389
Interest	16,045		16,045
Agency contributions		48,097	(48,097)
Employee contributions		24	(24)
Net investment income		7,399	(7,399)
Benefit payments	(50,592)	(50,592)	
Net changes	(13,158)	4,928	(18,086)
Balances at June 30, 2016	$358,003	$385,645	($27,642)

Sensitivity of the District's OPEB Liability to Changes in the Discount Rate - The following presents the District's OPEB liability calculated using the discount rate of 4.5%, (as well as what the District's OPEB liability) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.5%) or 1-percentage point higher (5.5%) than the current rate:

	1% Decrease to Discount Rate (3.5%)	Current Discount Rate (4.5%)	1% Increase to Discount Rate (5.5%)
Net OPEB asset	($11,173)	($27,642)	($43,656)

Sensitivity of the District's OPEB Asset to Changes in the Healthcare Cost Trend Rate - The following presents the District's OPEB asset calculated using the healthcare cost trend rate of 7.5% decreasing to 5%, as well as what the District's OPEB asset would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.5% decreasing to 4.0%) or 1-percentage point higher (8.5% decreasing to 6.0%) than the current rate:

	1% Decrease (6.5% Decreasing to 4.0%)	Current (7.5% Decreasing to 5.0%)	1% Increase (8.5% Decreasing to 6.0%)
Net OPEB asset	($41,311)	($27,642)	($12,687)

Note 8: Other Postemployment Benefits (Continued)

OPEB Expense and Deferred Outflows of Resources - For the year ended June 30, 2016, the Agency recognized OPEB expense of $30,011. At June 30, 2016, the Agency reported deferred outflows of resources of $55,854 related to benefit payments subsequent to the measurement date. That total amount will be recognized as a decrease of the net OPEB liability in the year ended June 30, 2017.

Note 9: Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency insures through commercial insurance companies for identified risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There was no significant reduction in the Agency's insurance coverage in fiscal 2016.

Note 10: Prior Year Restatement

As a result of the implementation of GASB Statement No. 75, the governmental activities' beginning net position was restated as follows:

Balance at July 1,2015	$1,788,260
Subtract previously reported OPEB asset	(54,501)
Add beginning net OPEB asset under GASB 75	9,556
Add deferred outflows of resources - Contributions after measurement date	48,097
Balance at July 1, 2015, as restated	$1,791,412

Note 11: Commitment

The Agency committed to spending $1,000,000 during the year ended June 30, 2017, for an ongoing software project.

Required Supplementary Information

Cooperative Educational Service Agency No. 9

Schedules of Changes in the Agency's OPEB Liability and Related Ratios

Last Ten Fiscal Years (When Available)

	2016
Measurement date	6/30/2015
Total OPEB Liability	
Service cost	$21,389
Interest	16,045
Benefit payments	(50,592)
Net change in total OPEB liability	(13,158)
Total OPEB liability at beginning	371,161
Total OPEB liability at end	$358,003
Fiduciary Net Position	
Employer contributions	$48,097
Employee contributions	24
Net investment income	7,399
Benefit payments	(50,592)
Net change in fiduciary net position	4,928
Fiduciary net position at beginning	380,717
Fiduciary net position at end	$385,645
Net OPEB asset at end	($27,642)
Fiduciary net position as a percentage of the total OPEB liability	107.72%
Agency's covered employee payroll	$1,967,395
Net OPEB liability as a percentage of covered-employee payroll	-1.41%

Schedule of Employer Contributions

Actuarially determined contribution	49,622
Contributions in relation to the actuarially determined contribution	(48,097)
Contribution deficiency	$1,525

Notes to the Schedule of Employer Contributions

Key methods and assumptions:

Actuarial cost method	Unit credit
Asset valuation method	Market value
Amortization method	30 year, Level dollar
Dsicount rate	5.00%
Amortization growth rate	3.00%
Inflation	4.00%

Cooperative Educational Service Agency No. 9

Schedules of the Employer's Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions - Wisconsin Retirement System (WRS)

Last Ten Fiscal Years (When Available)

	2016	2015
Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)		
Measurement date	12/31/2015	12/31/2014
Agency's proportion of the net pension liability (asset)	0.0137%	0.0133%
Agency's proportionate share of the net pension liability (asset)	$222,430	($327,131)
Agency's covered-employee payroll during the measurement period	2,123,753	1,896,084
Agency's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.47%	-17.25%
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.20%	102.74%
Schedule of Employer Contributions		
Contractually required contribution for the fiscal period	$139,752	$134,682
Contributions in relation to the contractually required contribution	139,752	134,682
Contribution excess	$0	$0
Agency's covered employee payroll for the fiscal period	$2,086,549	$1,951,261
Contributions as a percentage of covered-employee payroll	6.70%	6.90%

Notes to the Schedules

Changes of benefit terms. There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions. There were no changes in the assumptions.

Supplementary Information

Cooperative Educational Service Agency No. 9

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Awarding Agency Pass-Through Agency Award Description	Program Period	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education				
Special Education Cluster				
Wisconsin Department of Public Instruction				
IDEA Discretionary - UDL	7/1/15-6/30/16	84.027	A342-00000-749909	$8,861
IDEA Discretionary - RSN/CSPD	7/1/15-6/30/16	84.027	A342-00000-749909	301,319
CESA #5				
Positive Behavior Intervention Strategies - External Coach Subsidy	7/1/15-6/30/16	84.027	N/A	7,000
Positive Behavior Intervention Strategies	7/1/15-6/30/16	84.027	N/A	113,238
CESA #6				
DTAN Summit Conference	7/1/15-6/30/16	84.027	N/A	152,110
CESA #12				
Parent Educators	7/1/15-6/30/16	84.027	N/A	86,027
Total CFDA #84.027				**668,555**
Wisconsin Department of Public Instruction				
IDEA Preschool - Community Planning	7/1/15-6/30/16	84.173	A348-00000-749909	100,500
CESA 4				
Early Childhood Curricular and Assessment	7/1/15-6/30/16	84.173	N/A	4,000
Total CFDA #84.173				**104,500**
Total Special Education Cluster				**773,055**
Wisconsin Department of Public Instruction				
Vocational Education Act - Carl Perkins	7/1/15-6/30/16	84.048	A400-00000-749909	**119,077**
CESA 7				
Gear Up Grant	7/1/15-6/30/16	84.334	N/A	**11,271**
Wisconsin Department of Public Instruction				
ESEA Title III-A English Language Acquisition	7/1/15-6/30/16	84.365	N/A	**16,650**
TOTAL FEDERAL AWARDS				**$920,053**

See Independent Auditor's Report.

See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

Cooperative Educational Service Agency No. 9

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2016

Awarding Agency Pass-Through Agency Award Description	State I.D. Number	Program Period	Pass-Through Entity Identifying Number	Grantor Expenditures
Wisconsin Department of Public Instruction				
Direct				
Special Education and School Age Parents	255.101	7/1/15-6/30/16	749909-100	$184,966
Wausau				
Special Education and School Age Parents		7/1/15-6/30/16	N/A	12,370
CESA #5				
Special Education and School Age Parents	255.101	7/1/15-6/30/16	N/A	9,018
CESA #8				
Special Education and School Age Parents	255.101	7/1/15-6/30/16	N/A	1,849
Special Education and School Age Parents	255.101	7/1/15-6/30/16	N/A	2,272
CESA #12				
Special Education and School Age Parents	255.101	7/1/15-6/30/16	N/A	120
CESA #11				
Peer Review and Mentoring	255.301	7/1/15-6/30/16	N/A	25,000
Total Wisconsin Department of Public Instruction				235,595
Department of Workforce Development				
Youth Apprenticeship	455.107	7/1/15-6/30/16	N/A	51,498
TOTAL STATE FINANCIAL ASSISTANCE				**$287,093**

See Independent Auditor's Report.
See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

Cooperative Educational Service Agency No. 9

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Note 1: Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the "Schedules) include the federal and state award activity of the Agency under programs of the federal and state government for the year ended June 30, 2016. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *State Single Audit Guidelines*. Because the schedules present only a selected portion of the operations of the Agency, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Agency.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3: Indirect Cost

The Agency has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Other Reports

WIPFLi LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Control
Cooperative Educational Service Agency No. 9
Tomahawk, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States 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 business-type activities and remaining fund information of Cooperative Educational Service Agency No. 9 (the "Agency") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 10, 2017. Our report on the financial statements includes an emphasis-of-matter paragraph describing a change, discussed in Note 1 to the financial statements, in the District's method of accounting for postemployment benefits other than pensions.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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.*

Responses to Findings

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

January 10, 2017
Rhinelander, Wisconsin

WIPFLi LLP

Independent Auditor's Report on Compliance For Each Major Federal and State Program and on Internal Control Over Compliance

Board of Control
Cooperative Educational Service Agency No. 9
Tomahawk, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited Cooperative Educational Service Agency No. 9's (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2016. The Agency's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;* and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination on the Agency's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Cooperative Educational Service Agency No. 9 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

January 10, 2017
Rhinelander, Wisconsin

Cooperative Educational Service Agency No. 9

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
84.027	Special Education Cluster
84.048	Carl Perkins Vocational Education

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
Auditee qualified as a low-risk auditee?	Yes

State Financial Assistance

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with *State Single Audit Guidelines* ?	No

Identification of major state programs:

State I.D. Number	Name of State Program
255.101	Special Education and School Age Parents

Dollar threshold used to distinguish between Type A and Type B Programs	$250,000
Auditee qualified as a low-risk auditee?	Yes

Section II - Financial Statement Findings

2016-001 Financial Accounting and Reporting

Condition - The Agency's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and notes. As part of our professional services for the year ended June 30, 2016, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Because the Agency relies on Wipfli LLP to provide the necessary understanding of current accounting and disclosure principles in the preparation of the financial statements, a significant deficiency exists in the Agency's internal controls.

Criteria - *Government Auditing Standards* considers the inability to report financial data reliably in accordance with accounting principles generally accepted in the United States (GAAP) to be a significant deficiency in internal controls.

Effect - The completeness of the financial statement disclosures and the accuracy of the overall financial presentation are negatively impacted as outside auditors do not have the same comprehensive understanding of the Agency as its internal financial staff.

Recommendation - We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response - We have chosen to accept the degree of risk associated with this condition at this time because of cost and training time factors. It will be addressed at a point and time when necessary.

2016-002 Segregation of Duties

Condition - The size of the office staff precludes a proper segregation of functions to assure adequate internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. The Board should continue to be aware of this condition and to realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under those conditions, the most effective controls lie in the Board's knowledge of matters relating to the Agency's operations; however, a significant deficiency exists in the Agency's internal controls.

Criteria - The lack of proper segregation of duties is considered a significant deficiency in internal controls.

Effect - Without adequate segregation of duties, the likelihood that unauthorized or false transactions will be prevented or detected in a timely fashion is significantly diminished which may result in misstated financial statements.

Recommendation - We recommend management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response - We are aware of this situation and continue to monitor it on a regular basis. With the limited staff on hand, the Agency has attempted to segregate a reasonable amount of responsibilities to others outside the business office in an effort to maintain proper internal control. The Agency accepts the degree of risk associated with this condition because of cost or other considerations.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

Section III - Federal and State Findings and Questioned Costs

None

Section IV- Other Issues

Does the auditor's report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?	No
Does the audit report show audit issues (i.e. material non-compliance, nonmaterial noncompliance, questioned costs, material weakness, reportable condition, management letter comment, excess revenues, or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with *State Single Audit Guidelines:*	
Department of Public Instruction	No
Was a Management Letter or other document conveying audit comments issued as a result of this audit?	Yes
Name and signature of partner	Randall H Beard Randall H. Beard, CPA
Date of Report	January 10, 2017

Cooperative Educational Service Agency No. 9

Schedule of Prior Audit Findings

Year Ended June 30, 2016

2015-001 Financial Accounting and Reporting

This is a repeat finding for 2015. Current Year Finding 2016-001.

2015-002 Segregation of Duties

This is a repeat finding for 2015. Current Year Finding 2016-002.