

Independent Auditor's Report and
Financial Statements

Bear Paw Cooperative

Blaine County
Chinook, Montana
June 30, 2014

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BEAR PAW COOPERATIVE

June 30, 2014

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ORGANIZATION – BOARD OF DIRECTORS AND OFFICIALS

For the Year Ended June 30, 2014

BOARD OF DIRECTORS

Jay Eslick	Chairman
Rhonda Baker	Vice Chairperson
Darin Cummings	Trustee
Rachel Ghekiere	Trustee
Thad Kaiser	Trustee

OFFICIALS

Louise Nissen	Cooperative Director
Shanna Flores	Cooperative Business Manager/Clerk
Wenda Oehmcke	Blaine County Treasurer

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

This Management Discussion and Analysis (MD&A) is provided to give the reader an overview of the financial position and activities of the Cooperative for the fiscal year ending June 30, 2014.

The Cooperative provides related special education services, special education itinerant teaching services, and preschool services to thirty-three (33) school districts, including forty-three (43) service sites, located in six (6) counties.

Using This Financial Report

The general format of this report is required by Statement Number 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below. This MD&A is a comparison of fiscal year 2013 (July, 2012 to June, 2013) and fiscal year 2014 (July, 2013 to June, 2014). Please read this report along with the Cooperative's basic financial statements.

Reporting the Cooperative as a Whole

Entity-wide Financial Statements:

The basic financial statements include two (2) entity-wide statements that focus on operations of the Cooperative as a whole. These statements measure input and output using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements. The entity-wide statements report the activities of the Cooperative under the following category:

Governmental activities: This reflects special program school functions, including instruction, student services, administration, etc. State and federal revenues usually support most of these functions of the Cooperative.

- A. **Statement of Net Position:** This statement shows the "assets" (what is owned), "liabilities" (what is owed), and the "net position" (the resources that would remain if all obligations were settled) of the Cooperative. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as machinery and equipment, and other long-lived property; and some assets are available to fund budgets to the following year.
- B. **Statement of Activities:** This statement shows the amounts of program-specific and general revenues used to support the Cooperative's various functions.

Fund Financial Statements:

The fund financial statements provide detailed information about the funds used by the Cooperative. State law and Generally Accepted Accounting Principals (GAAP) establish the fund structure of cooperatives. State law generally requires cooperatives to segregate money generated for certain specific purposes, like retirement costs and specific grant activities, in separate fund accounts.

The Balance Sheet and Statement of Revenues, Expenditures, and changes in Fund Balance are shown for governmental funds, which includes the general fund and special revenue funds, such as for retirement costs and specific grant activities. These funds use the modified accrual basis of accounting and represent the cooperative's activities and programs.

The fund financial statements report balances and activities of the most significant, or "major" funds, separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the cooperative's operations, and the existence of legal budget requirements. The Cooperative's major funds for fund financial statement reporting purposes are the general fund, retirement fund, and IDEA Part B and Preschool Entitlements.

The basic financial statements include a reconciliation of the fund financial statements to the entity-wide statements. Most significant differences result from the use of different presentation bases. The entity-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the entity-wide statements but not in the fund statements.

Allowable Cost Funding Summary

The Cooperative receives entitlements directly from the state which include the Related Service Block Grant, Travel Entitlement, and Administrative/Operations and Maintenance Entitlement. The amounts are based primarily upon the ANB (Average Number Belonging) of each member district. Additional state funds are provided in the form of an annual Quality Teacher Entitlement, which is determined by the number of qualified licensed staff employed by the Cooperative. The dollars are deposited monthly by the state into the Cooperative's account with the Blaine County Treasurer.

Related Services Block Grant and Required District Match

The cooperative receives The Related Services Block Grant directly from the state as part of the allowable costs entitlement. This monthly entitlement is deposited directly in our account with the Blaine County treasurer. Cooperative member schools are required to transfer a Related Services Block Grant Match from each member districts' local revenue source. A notice reminding them of this requirement is sent to each district official in September with an invoice of the amount due the cooperative.

The warrants from the districts are received by the Administrative Assistant, recorded in RSBG match document, and delivered to the business manager for deposit with the county treasurer. The business manager also records the receipt of the warrants before depositing the funds. The money is placed into our allowable costs budget as State Source Dollars.

IDEA Part B and Preschool Federal Entitlements

The IDEA Part B and Preschool dollars are applied for through an E-Grant application each spring for the following fiscal year. The application for this grant involves both the cooperative and its member schools to submit data before the grant can be approved by the State. A budget is submitted and projected amounts are placed in several project code categories.

After the grant is approved, a cash advance request is submitted monthly and upon receipt, deposited directly with the Cooperative account at the Blaine County Treasurer. An amended budget is submitted to the state when Carry Over dollars from the previous budget year entitlement are distributed to the Cooperative. IDEA Part B and Preschool dollars are placed into the cooperative's operating budget as Federal Source Dollars.

As part of the Idea Part B budget, a portion of this entitlement was set aside and transferred to schools for various special education costs incurred by the applying districts. An application process was established in which the application purpose is defined and submitted to the cooperative director for approval. If approved, the funds are requested on a monthly basis from the State, and in turn transferred to districts through a monthly Cash Advance Request form.

Stipulations are adhered to by the Cooperative for oversight of the spending, and include a budget printout with line item spending accounts, receipts, or other proof that the money was spent as requested.

Additional Funds

Malta Schools contract with the Cooperative for School Psychology services. The agreed upon payment for these services is remitted to the Cooperative in two equal payments. Semi-annual invoices are sent to Malta for payment of these services. The warrants are received by the Administrative Assistant, recorded, and delivered to the Business Manager for additional recording and deposit with Blaine County Treasurer.

Hays/Lodgepole Schools contracts with the cooperative for Speech/Language services to be provided at St. Paul's Mission, to meet their obligation to serve private school students with Proportionate Share funding. The agreed upon payment for these services is remitted to the Cooperative in two equal payments. Semi-annual invoices are sent to Hays/Lodgepole for payment of these services. The warrants are received by the Administrative Assistant, recorded, and delivered to the Business Manager for additional recording and deposit with Blaine County Treasurer.

Occasionally, near the end of the fiscal year, a member school may transfer unspent Instructional Block Grant dollars (state allowable cost entitlements received directly from the state by member districts) to the Cooperative to maintain the district's maintenance of effort. These warrants are received by the Administrative Assistant, and delivered to the Business Manager for deposit into the Cooperative's account with the Blaine County Treasurer as State Dollars.

Actual Comparisons of Current Budget:

The budgetary comparison schedules show how actual expenditures compared to the original and final budgeted expenditures for the major funds. The Cooperative did not experience any significant variances between the original and final expenditure budget and the final budget and actual expenditures. The Cooperative may receive varying amounts of unallocated Instructional Block Grant funds from some member districts, resulting in a final general fund budget that may vary from the original Bear Paw Cooperative general budget. This transfer of funds helps member schools meet Maintenance of Effort requirements. Additionally, the Cooperative allocates all of the previous years' federal carry-over funds and about 50% of current year funds in the beginning budget each fiscal year.

Fiscal Analysis

The Statement of Net Position and the Statement of Activities provides the perspective of the Cooperative as a whole. The following tables provide a summary of the Cooperative's net assets and activities compared to last year.

<u>NET POSITION</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current Assets			
Capital Assets	243,486.00	159,757.00	83,729.00
TOTAL ASSETS:	<u>105,301.00</u>	<u>106,180.00</u>	<u>(879.00)</u>
	<u>348,787.00</u>	<u>265,937.00</u>	<u>82,850.00</u>
Current Liabilities	25,000.00	0.00	25,000.00
Non-current liabilities	88,096.00	85,950.00	2,146.00
TOTAL LIABILITIES:	<u>113,096.00</u>	<u>85,950.00</u>	<u>27,146.00</u>
Net Position:			
Net investment in capital assets	105,301.00	106,180.00	(879.00)
Restricted for:			
Other fund activities	218,486.00	77,794.00	140,692.00
Unrestricted:	<u>(88,096.00)</u>	<u>(3,987.00)</u>	<u>(84,109.00)</u>
TOTAL NET POSITION	<u>235,691.00</u>	<u>179,987.00</u>	<u>55,704.00</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

<u>REVENUES</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Program revenues:			
Federal grants:	872,895	955,534	(82,639)
Total program revenues	<u>872,895</u>	<u>955,534</u>	<u>(82,639)</u>
General revenues:			
State Aid	341,391	343,029	(1,638)
Interest	508	520	(12)
Miscellaneous	146,696	4,397	142,299
Total general revenues	<u>488,595</u>	<u>347,946</u>	<u>140,649</u>
<u>EXPENSES</u>			
Special programs	334,571	336,661	(2,090)
Supporting Services	881,444	907,645	(26,201)
Operations and Maintenance	104,209	98,973	5,236
TOTAL EXPENSES:	<u><u>1,320,224</u></u>	<u><u>1,343,279</u></u>	<u><u>(23,055)</u></u>



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EST. 1919

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

303 N 28th Street, Suite 503
Billings, MT 59101

Phone - 406-248-1681
Fax - 406-248-2855

www.ghg-cpa.com

INDEPENDENT AUDITOR'S REPORT

December 19, 2014

Board of Directors
Bear Paw Cooperative
Chinook, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Bear Paw Cooperative, Blaine County, Chinook, Montana, (the Cooperative) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Cooperative's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 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 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 respective financial position of the governmental activities and each major fund of the Cooperative, as of June 30, 2014, and the respective changes in financial position 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 and Schedule of Funding Progress – Other Postemployment Benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

STATEMENT OF NET POSITION

June 30, 2014

ASSETS:	
Cash and Equivalents	191,314
Due from Other Governments	37,147
Prepaid Expenses	15,025
Capital Assets:	
Other Capital Assets, net of depreciation	105,301
Total Capital Assets	<u>105,301</u>
Total Assets	<u>348,787</u>
 LIABILITIES:	
Due to other governments	25,000
Long-term liabilities:	
Compensated absences	50,621
Other post employment benefits	37,475
Total liabilities	<u>113,096</u>
 NET POSITION:	
Net investment in capital assets	105,301
Restricted for:	
Other fund activities	218,486
Unrestricted	(88,096)
Total net position	<u>235,691</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue</u>
		<u>Services</u>	<u>Grants</u>	<u>2014</u>
Primary government				
Instruction:				
Special Programs	334,571	0	872,895	538,324
Supporting Services	881,444	0	0	(881,444)
Operations & Maintenance	104,209	0	0	(104,209)
Total governmental activities	<u>1,320,224</u>	<u>0</u>	<u>872,895</u>	<u>(447,329)</u>
General revenues:				
State Aid				341,391
Interest				508
Miscellaneous				146,696
Total general revenues				<u>488,595</u>
Change in net position				41,266
Net position - beginning				179,987
Prior period adjustment				14,438
Net position - beginning, as restated				<u>194,425</u>
Net position - ending				<u>235,691</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2014

	<u>Interlocal Agreement</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	107,449	67,901	15,964	191,314
Due from other governments	0	9,960	27,187	37,147
Prepaid expenses	0	0	15,025	15,025
Total assets	<u>107,449</u>	<u>77,861</u>	<u>58,176</u>	<u>243,486</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other governments	<u>0</u>	<u>0</u>	<u>25,000</u>	<u>25,000</u>
Total liabilities	<u>0</u>	<u>0</u>	<u>25,000</u>	<u>25,000</u>
Fund balances:				
Restricted for:				
Other fund activities	<u>107,449</u>	<u>77,861</u>	<u>33,176</u>	<u>218,486</u>
Total fund balances	<u>107,449</u>	<u>77,861</u>	<u>33,176</u>	<u>218,486</u>
Total liabilities and fund balances	<u>107,449</u>	<u>77,861</u>	<u>58,176</u>	<u>243,486</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2014

Total fund balance, governmental funds 218,486

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 105,301

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Compensated Absences, and Other Postemployment Benefits), are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (88,096)

Net Position of Governmental Activities in the Statement of Net Position 235,691

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	Interlocal Agreement	Retirement	Miscellaneous Programs	Total Governmental Funds
REVENUES				
Intergovernmental:				
State	341,391	0	0	341,391
Federal	0	0	872,895	872,895
Interest on Investments	283	225	0	508
Other	84,296	62,400	0	146,696
Total revenues	<u>425,970</u>	<u>62,625</u>	<u>872,895</u>	<u>1,361,490</u>
EXPENDITURES				
Current:				
Instruction	41,216	5,576	284,813	331,605
Supporting Services	358,514	53,269	469,661	881,444
Operations and Maintenance	754	0	53,396	54,150
Capital Outlay	0	0	50,000	50,000
Total Expenditures	<u>400,484</u>	<u>58,845</u>	<u>857,870</u>	<u>1,317,199</u>
Excess (deficiency) of revenues over expenditures	25,486	3,780	15,025	44,291
Fund balances - beginning	81,963	74,081	3,713	159,757
Prior period adjustment	0	0	14,438	14,438
Fund balances - beginning, as restated	<u>81,963</u>	<u>74,081</u>	<u>18,151</u>	<u>174,195</u>
Fund balances - ending	<u>107,449</u>	<u>77,861</u>	<u>33,176</u>	<u>218,486</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds:	44,291
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	(50,879)
The statement of activities reports expenses that the governmental funds do not and are not reported as expenditures in the governmental funds:	
Capital outlays, not including capital assets under leases	50,000
Compensated absence expense	(717)
Other post employment benefits	(1,429)
	<hr/>
Change in net position of governmental activities	<u>41,266</u>

The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Note A. Description of the School Cooperative and Reporting Entity

1. Reporting Entity

The Cooperative operates under an interlocal agreement entered into between and among the participating members. In accordance with this interlocal agreement, the Cooperative provides full services to persons requiring special education and to all handicapped students residing within the participating members' service area. For the year ended June 30, 2014, the participating members were:

BLAINE COUNTY

Bear Paw
Cleveland
Harlem
Hays/Lodgepole
Chinook
North Harlem Colony
Turner
Zurich

CHOUTEAU COUNTY

Big Sandy
Warrick

HILL COUNTY

North Star
Box Elder
Cottonwood
Davey
Gildford Colony
Rocky Boy

LIBERTY COUNTY

Chester – J/I
Liberty Elementary
Whitlash

PHILLIPS COUNTY

Dodson
Saco
Whitewater

VALLEY COUNTY

Hinsdale

The Cooperative is managed by a five-member Board of Directors, which has financial accountability and control over all activities related to the operations of the Cooperative. The Cooperative receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

The criteria for including organizations within the Cooperative's reporting entity are set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." This statement defines the financial reporting entity as the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Cooperative to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Cooperative. The Cooperative has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Cooperative's financial statements. In addition, the Cooperative is not aware of any entity that would exercise such financial accountability that would result in the Cooperative being considered a component unit of the entity.

Blaine County provides substantial services to the Cooperative; cash collections and warrant redemption all flow through the office of the County Treasurer. This office also maintains the Cooperative's cash and invests funds at the direction of the Cooperative. Despite the degree of services rendered, the Cooperative has determined that neither Blaine County nor any other outside agency meets the criteria set forth in the preceding paragraph and therefore, no other agency has been included as a component unit of the Cooperative's financial statements.

Note B. Summary of Significant Accounting Policies

The financial statements of Bear Paw Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Cooperatives. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Cooperative's significant accounting policies are described below:

1. Basis of Presentation

a. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities show information about the overall financial position and activities of the Cooperative.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or the public who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

b. Fund Financial Statements

The Cooperative uses funds to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate 'fund types.'

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds.

2. Governmental Funds

The Cooperative reports the following major governmental funds:

Retirement Fund – Authorized by section 20-9-501, MCA, for the purpose of financing the employer's contribution to the Teacher's Retirement System (TRS), the Public Employees' Retirement System (PERS), Unemployment Compensation and Social Security. Funded by a countywide levy for retirement.

Miscellaneous Programs Fund – The Miscellaneous Programs Fund is used to account for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support District programs are deposited in this fund.

Interlocal Agreement Fund - The Interlocal Agreement Fund is authorized by Sections 20-7-457, 20-9-511, 20-7-801, and 20-9-701, MCA, for the purpose of accounting for revenues and expenditures related to an interlocal agreement between two or more school districts or other local governments.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

3. Basis of Accounting and Measurement Focus

a. Government-Wide Financial Statements

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 as revenue as soon as eligibility requirements imposed by the provider have been met. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

b. Fund Financial Statements

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Cooperative considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Cooperative reports advances from grantors as a liability on its government-wide statement of net position and on its governmental funds balance sheet. Advances from grantors arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period. Advances from grantors also arise when resources are received by the Cooperative before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Cooperative has a legal claim to resources, the liability for advances from grantors is removed from the balance sheet and revenue is recognized.

Revenues from local sources consist primarily of payments from member districts. Revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as advances from grantors until earned.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

c. Cash and Investments

Cash resources of the Cooperative are combined with cash resources of other school districts within Blaine County to form a pool of cash and cash equivalents that is managed by the Blaine County Treasurer. Investments of the pooled cash consist primarily of certificates of deposit and repurchase agreements and are carried at cost, which approximates fair value. Among the instruments which state statutes authorize the Cooperative to invest in are direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state; in a repurchase agreement or Montana short-term investment pool. Interest income received as a result of pooling is distributed to the appropriate district utilizing a formula based on the respective district's previous month's ending balance of cash and cash equivalents. The County Treasurer then distributes interest income to each fund utilizing a formula based on the fund's previous month's ending balance of cash and cash equivalents.

The Cooperative issues warrants in payment of its obligations. When the warrants are presented to the County Treasurer, the Cooperative's cash balance is reduced to pay the warrant. The outstanding payroll and claims warrants are reflected in the payroll and claims clearing agency funds.

The cash and warrants payable in the payroll and claims clearing accounts are as follows:

	<u>Payroll Clearing</u>	<u>Claims Clearing</u>
Cash	<u>\$5,033</u>	<u>\$42,877</u>
Warrants payable	<u>\$5,033</u>	<u>\$42,877</u>

Information regarding the collateral and security for cash and cash equivalents is not available to the Cooperative. Montana state statute requires that collateral to secure deposits of public funds be held in direct obligations of the United States government or its agencies.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

4. Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from other funds' or 'due to other funds' on the balance sheet.

5. Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements, and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 -100 Years
Equipment	5 - 25 Years

6. Compensated Absences

All full-time Cooperative employees accumulate vacation and/or sick leave hours for later use or for payment upon termination, death or retirement. Vacation and sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the Cooperative will compensate the employees for the benefits through paid time off or some other means.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

7. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the fund balance amounts to be reported within one of the fund balance categories listed below.

Nonspendable - Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted – Amounts that can be spent only for a specific purpose pursuant to state law, enabling legislation, grant agreement, or donor agreement.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Cooperative's Management Council (the Cooperative's highest level of decision making authority).

Assigned – Amounts that are intended to be used by the government for specific purposes under the direction of the Business Manager/Clerk by authority granted by the Management Council.

Unassigned – The residual classification for the government's general fund that includes all amounts that are not contained in the other classifications.

It is the Cooperative's policy that for purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

8. Net Position

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Cooperative or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Cooperative's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

9. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

10. Date of Management Review

Management has evaluated the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. Management has performed this evaluation through December 19, 2014, the date the financial statements were available to be issued.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note C. Capital Assets

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
CAPITAL ASSETS BEING DEPRECIATED AT COST:				
Machinery and Equipment	<u>375,162</u>	<u>50,000</u>	<u>38,850</u>	<u>386,312</u>
Total	<u>375,162</u>	<u>50,000</u>	<u>38,850</u>	<u>386,312</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Machinery and Equipment	<u>268,982</u>	<u>50,879</u>	<u>38,850</u>	<u>281,011</u>
Total accumulated depreciation	<u>268,982</u>	<u>50,879</u>	<u>38,850</u>	<u>281,011</u>
Total	<u>106,180</u>			<u>105,301</u>

Depreciation expense was charged to the functions of the cooperative as follows:

Supportive Services	820
Operations and Maintenance	<u>50,059</u>
	<u>50,879</u>

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note D. Long-Term Debt

The following is a summary of changes in current and long-term obligations for the year ended June 30, 2014:

	July 1, 2013	Total Change	June 30, 2014
Compensation Absences Payable	49,904	717	50,621
Other Postemployment Benefits	36,046	1,429	37,475
Total	<u>85,950</u>	<u>2,146</u>	<u>88,096</u>

The accumulated compensated absences liabilities will be liquidated by several of the governmental funds. The current portion of compensated absences has not been separately stated due to the indeterminate nature of the liability. Employees are allowed to accrue compensated absences indefinitely, subject to dollar limits set by state statute and the negotiated agreements. It is used at the employee's discretion.

Note E. Employee Benefit Plans

1. Plan Description and Provisions

All full-time Cooperative employees participate in one of two state-wide, cost-sharing, multiple-employer retirement benefit plans. Contributions to the two plans are as required by state statute. Information about the two plans is presented below. Total payroll for all Cooperative employees for the year ended June 30, 2014 was \$831,276.

Public Employees Retirement System (PERS) - All Cooperative employees, except employees who teach on a full-time basis or who are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Funding is provided by participating units of government and their employees. The Cooperative's contribution to this plan for the year ended June 30, 2014 was \$2,557, (8.07% of eligible payroll). The State of Montana contributes .37% of the PERS employees' monthly compensation that is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the PERS funding policy. The Cooperative's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$2,503 (7.90% of eligible payroll). Total payroll for employees covered by PERS was \$31,680. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$5,060, \$4,295, and \$4,427, for the fiscal years ending June 30, 2014, 2013 and 2012, respectively.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Participants become eligible for benefits after age 60 and 5 years of service, after age 65 regardless of service, or 30 years of service regardless of age. The benefit is 1/56 of the final compensation for each year of credited service, paid as a modified cash refund annuity. A participant is eligible for early retirement benefits after age 50 and 5 years of service or after 25 years of service regardless of age. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

Teachers Retirement System (TRS) - All Cooperative employees who teach on a full-time basis or are employed in a position in which instructional services are expected to be rendered, are provided pension benefits by a multi-employer plan administered by the State of Montana. Funding is provided by participating units of government and their employees. The Cooperative's contribution to this plan for the year ended June 30, 2014 was \$66,526 (8.47% of eligible payroll, plus contributions from working retirees). The State of Montana contributes 2.49 % of the TRS employees' monthly compensation which is considered to be an "on behalf" payment. Although not a significant amount, the contribution is a part of the TRS funding policy. The Cooperative's contribution to this plan represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$62,034 (8.15% of eligible payroll). Total payroll for teaching employees was \$782,031. One hundred percent of the required and voluntary contributions were made for the current year and the preceding two years. They were \$128,560, \$116,223, and \$112,512, for the fiscal years ending June 30, 2014, 2013 and 2012, respectively.

Participants become eligible for benefits after age 60 or 25 years of service. The benefit is 1/60 of the final compensation for each year of credited service. A participant is eligible for early retirement, with reduced benefits, after age 50 and 5 years of service. Rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature.

The PERS financial information is reported in the Public Employees Retirement Board's Comprehensive Annual Financial Report for the fiscal year end. It is available from the PERD at 100 North Park Avenue, Suite 200, P.O. Box 200131, Helena, Montana 59620-0131, (406) 444-3154.

The TRS information is reported in the Teachers' Retirement Board's Actuarial Valuation for the fiscal year end. It is available from the TRB at 1500 E. Sixth Avenue, Helena, Montana 59620-0139, (406) 444-3134.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note F. Other Postemployment Benefits (OPEB)

1. Other Postemployment Benefits

The District provides continuation of medical and dental coverage to its retiring employees. Retirees may elect to continue medical and dental coverage for themselves and their dependents through the District until the retiree's death. The District does not contribute to the health insurance premiums for retirees. Other postemployment benefits arise from the difference in the District's medical insurance cost the retirees are incurring and what they would otherwise be paying on the open market for a similar plan and the cost of the retiree's premiums that are paid 100% by the District. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the District has calculated and included a postemployment benefit liability for the year ended June 30, 2014.

2. Plan Description

The Cooperative's Employee Group Benefits Plan is a single-employer defined benefit healthcare plan administered by Montana Schools Health & Welfare Plans (MSHWP). MSHWP provides medical and prescription drug insurance benefits along with dental and vision insurance benefits to eligible retirees and their eligible dependents. A retiree who retires with the Teachers' Retirement System (TRS) or the Public Employees' Retirement System (PERS) is eligible to keep the Cooperative's health insurance as a retiree until age 65, or until the retiree is eligible for coverage under Medicare. Retirement eligibility is determined based on a minimum of reaching age 50 with at least 5 years of membership with a TRS or PERS employer. The retiree is on the same medical plan as the Cooperative's active employees.

3. Funding Policy

The contribution requirement of plan members is established by the Cooperative's insurance committee in conjunction with our insurance provider. The required contribution is based on projected Annual OPEB Cost and Net OPEB Obligation. The Cooperative's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The cooperative has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Cod. P50.101-134 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

4. Annual OPEB Cost and Net OPEB Obligation

The District's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation:

Normal Cost	770
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	604
Interest to 6/30/14	55
Annual OPEB Cost (expense)	<u>1,429</u>
Contributions Made	<u>0</u>
Increase in net OPEB Obligation	1,429
Net OPEB Obligation - 7/1/13	<u>36,046</u>
Net OPEB Obligation - 6/30/14	<u><u>37,475</u></u>

5. Trend Information

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2011	12,629	0.0%	12,629
June 30, 2012	21,340	0.0%	33,969
June 30, 2013	2,077	0.0%	36,046
June 30, 2014	1,429	0.0%	37,475

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

6. Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$10,856. The Districts' plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$782,031 and the ratio of the UAAL to the covered payroll was 1.4%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

7. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on a historical average retirement age for the covered group, active plan members were assumed to retire at age 63, or at the first subsequent year in which the member would qualify for benefits.

Expected investment return on funds – The investment return on funds was estimated to be an average of 4%.

Percent of employees expected to stay on the health plan after retirement - The percentage of employees expected to stay on the plan after retirement was estimated to be 10%. This percentage was estimated given past history (where the one retiree on the health insurance plan is the only one in recent history to remain on the plan) and the recent trends in Montana of fewer retired employees remaining on the cooperative health insurance plans due to high premium levels and other options.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Mortality, health insurance inflation, and turnover rates: - These mortality rates, health insurance inflation, and turnover rates were all based on a case study completed for the league of Minnesota cities used in determining OPEB costs using the alternative measurement method. The turnover & discount rate for the Bear Paw Co-op was calculated at .601 while the health insurance inflation factor was calculated at 2.44 (which are based on age difference of active and retired employees).

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

The actuarial accrued liability was calculated using the number of retirees and spouses on the plan, the monthly implicit rate subsidy, expected years of health coverage, turnover & discount factor, health insurance inflation factor, percent of retirees expected to stay on the health insurance plan, number of active employees and spouses on the health plan, average past service of employees, average future service of employees, and average total service of employees. Based on the historical and expected returns of the Cooperative's short-term investment portfolio, a discount rate of 4.0% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

Note G. Related Party Transaction

The Cooperative paid \$25,000 to rent office space from Chinook School District, which is one of the member school districts.

Note H. Resource Transfers

For the year ended June 30, 2014, resource transfers in of \$62,153 and \$62,400 were made in the interlocal fund and retirement fund respectively, to record lump sum payments received from other school districts for the provision of special education services. Resource transfers out of \$40,000 were made from the miscellaneous federal programs fund for the year ended June 30, 2014 to account for resources recorded as revenue but transferred to other districts for expenditure. Resource transfers have been reclassified in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to state revenue in the interlocal fund and retirement fund and instruction expense in the miscellaneous programs fund, respectively.

Note I. Contingent Liabilities

The Cooperative participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Such grantor audits of these programs, if any, for or including the year ended June 30, 2014, have not yet been conducted. Accordingly, the Cooperative's compliance with applicable grant requirements for those programs if audited by grantor agencies will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

BASIC FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2014

Note J. Economic Dependency

The Cooperative relies on significant funding passing through its members as well as federal and state grants to service its members. Loss of any of these revenues could severely restrict the ability of the Cooperative to continue.

Note K. Prior Period Adjustment

During the year ended June 30, 2014, it was discovered that revenues were overstated by \$14,438 due to recording grant revenues that should have been recorded in the prior year. As a result, current year revenues have been decreased and a prior period adjustment was made to adjust beginning net position and fund balance by \$14,438.

REQUIRED SUPPLEMENTARY INFORMATION

Bear Paw Cooperative
Blaine County
Chinook, Montana
June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

For the Year Ended June 30, 2014

The year ended June 30, 2010 was the year of transition for GASB Statement No. 45 therefore, the requirements of GASB Statement No. 45 have been implemented prospectively. Hence, the below illustration does not reflect similar information respective of the years preceding June 30, 2010. The annual OPEB costs, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for June 30, 2014, 2013, 2012, and 2011 for the District's other postemployment benefits are as follows:

SCHEDULE OF FUNDING PROGRESS							
		(a)	(b)	(b - a)	(a / b)	(c)	[(b - a) / c]
Retiree Health Plan	Actuarial Valuation Date	Actuarial Value of assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	06/30/11	\$ -	\$ 81,878	\$ 81,878	0.0%	678,147	12.1%
	06/30/12	\$ -	\$ 81,878	\$ 81,878	0.0%	769,580	10.6%
	06/30/13	\$ -	\$ 19,232	\$ 19,232	0.0%	794,959	2.4%
	06/30/14	\$ -	\$ 10,856	\$ 10,856	0.0%	782,031	1.4%

SUPPLEMENTAL INFORMATION

Bear Paw Cooperative
Blaine County
Chinook, Montana
June 30, 2014

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements or Expenditures</u>
U.S. Department of Education Passed through Montana Office of Public Instruction		
Special Education Cluster		
IDEA Part B	84.027	850,298
IDEA Preschool	84.173	<u>22,597</u>
Total Federal Financial Assistance		<u><u>872,895</u></u>

SUPPLEMENTAL INFORMATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Note A Basis of Accounting

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

Note B Subrecipients

The Cooperative provided federal awards to subrecipients. During the year \$40,000 was passed on to subrecipients.



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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

303 N 28th Street, Suite 503
Billings, MT 59101

Phone - 406-248-1681
Fax - 406-248-2855

www.ghg-cpa.com

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

December 19, 2014

Board of Directors
Bear Paw Cooperative
Chinook, Montana

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 each major fund of Bear Paw Cooperative (the Cooperative) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana



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303 N 28th Street, Suite 503
Billings, MT 59101

Phone - 406-248-1681
Fax - 406-248-2855

www.ghg-cpa.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 19, 2014

Boar of Directors
Bear Paw Cooperative
Chinook, Montana

Report on Compliance for Each Major Federal Program

We have audited Bear Paw Cooperative's (the Cooperative) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2014. The Cooperative's major federal 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Billings, Montana

SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued: - Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> No

Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No
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Federal Awards

Type of Auditor's report issued on compliance for major programs: - Unmodified

Internal control over major programs:

- Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> No

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No
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Identification of Major Programs:

CFDA Number(s)

84.027, 84.173

Name of Federal Program or Cluster

Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No
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SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the Year Ended June 30, 2014

Section II – Financial Statement Findings:

None

Section III – Federal Award Findings and Questioned Costs:

None

Section IV – Summary Schedule of Prior Audit Findings:

2013-001 - Implemented