

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**





**CONRAD, MONTANA**

**FINANCIAL REPORT**

**June 30, 2014**



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BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
ORGANIZATION  
June 30, 2014

ADVISORY BOARD MEMBER SCHOOLS

Pondera County:

Conrad  
Valier  
County Superintendent of Schools  
Dupuyer

Toole County:

Shelby  
Sunburst  
County Superintendent of Schools  
Galata

Glacier County:

Cut Bank  
Heart Butte  
County Superintendent of Schools  
Mountain View

Teton County:

Choteau  
Dutton/Brady  
Fairfield  
Power  
County Superintendent of Schools  
Bynum  
Golden Ridge  
Greenfield  
Pendroy

Lewis and Clark County:

Augusta  
County Superintendent of Schools  
Auchard Creek

Chouteau County:

County Superintendent of Schools  
Knees

DIRECTOR

Kris Magruder

## INDEPENDENT AUDITOR'S REPORT

To The Advisory Board  
Big Sky Special Needs Cooperative  
Conrad, Montana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Sky Special Needs Cooperative, Conrad 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**

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 of material misstatement.

An audit includes 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.

### **Basis for Qualified Opinion on Government-wide Financial Statements**

Management has not implemented the provisions of GASB No. 45 regarding the measurement and disclosure of the annual cost of other post-employment benefits offered to employees as part of total compensation. Accounting principles generally accepted in the United States of America require a systematic, accrual-basis measurement and recognition of such cost over a period that approximates employees' years of service, and the provision of information about the actuarial accrued liabilities associated with such costs and whether and to what extent progress has been made in funding those costs. The amount by which this departure would affect the liabilities, net position, and expenses of the statement of net position and statement of activities is not reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Government-wide Financial Statements" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the government-wide financial statements of Big Sky Special Needs Cooperative, Conrad, Montana, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Big Sky Special Needs Cooperative, Conrad, Montana, 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 the budgetary comparison information on pages 31 through 35 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Great Falls, Montana  
January 16, 2015

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

The Big Sky Special Needs Cooperative Director and the Business Manager/Clerk of School District Number 10, Pondera County, Conrad, Montana, have provided this management discussion and analysis (MD&A) to give the reader of these statements an overview of the financial position and activities of the Big Sky Special Needs Cooperative (the Cooperative) for the fiscal year ended June 30, 2014. Please read it along with the Cooperative's financial statements which begin on page 12. The Cooperative provides the speech pathology, psychology, occupational therapy, behavioral therapy, and resource services to twenty-one school districts located in seven counties.

### **USING THIS FINANCIAL REPORT**

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Boards (GASB). Components and purposes of the report are explained below. This MD&A is a comparison of fiscal year 2014 (2013-2014) and fiscal year 2013 (2012-2013).

### **FINANCIAL HIGHLIGHTS**

The Cooperative is primarily funded through federal and state special education dollars. One member school from each county contributes the retirement monies necessary to cover retirement costs in the Cooperative's retirement fund. State funds and federal IDEA Part B grant funds are the major funding sources for the Cooperative; a small IDEA Preschool grant and state Medicaid monies are the other revenue sources. Federal IDEA dollars are declining and this is impacting the carryover dollars available to fund programs. The Cooperative has encouraged member schools to keep their special education costs static, but still meet the Maintenance of Effort requirements. The Cooperative follows the same practice, relying on federal dollars to cover additional costs. This practice is getting more difficult as the Cooperative's costs are increasing and the federal dollars are declining. As a consequence, the Cooperative will have to rely more on the state funds to cover expenses.

### **REPORTING THE COOPERATIVE AS A WHOLE**

#### **Government-wide Financial Statements**

The basic financial statements include two government-wide statements that focus on operations of the Cooperative as a whole. These statements measure inputs and outputs 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 government-wide statements report the activities of the Cooperative under the following category:

Governmental Activities - reflects special program school functions, including instruction, student services, administration, etc. State and federal revenues usually support most of these functions of the Cooperative. Revenues and expenses of the Cooperative generated through interfund activity have been eliminated or reclassified to avoid a "doubling up" effect for reporting operations of the Cooperative.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2014 (UNAUDITED)

**REPORTING THE COOPERATIVE AS A WHOLE (CONTINUED)**

***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 of the following year.

***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 Principles (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, IDEA Part B Project 456 fund and IDEA Preschool Project 457 fund.

The 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.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
 YEAR ENDED JUNE 30, 2014 (UNAUDITED)

**REPORTING THE COOPERATIVE AS A WHOLE (CONTINUED)**

**Budget-to-Actual Comparisons**

The budgetary comparison schedules show how actual expenditures compare 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.

**FINANCIAL ANALYSIS**

Recall that the Statement of Net Position provides the perspective of the Cooperative as a whole. The following table provides a summary of the Cooperative's net position for 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>ASSETS</b>			
Current assets, including cash, receivables and prepaid expenses	\$ 558,332	\$ 568,817	\$ (10,485)
Capital assets, including machinery and equipment, net	<u>134,064</u>	<u>132,539</u>	<u>1,525</u>
Total assets	<u>692,396</u>	<u>701,356</u>	<u>(8,960)</u>
<b>LIABILITIES</b>			
Current liabilities, including payables and unearned revenues	146,128	107,548	38,580
Long-term liabilities, including compensated absences payable	<u>4,669</u>	<u>2,947</u>	<u>1,722</u>
Total liabilities	<u>150,797</u>	<u>110,495</u>	<u>40,302</u>
<b>NET POSITION</b>			
Net investment in capital assets	134,064	132,539	1,525
Unrestricted	<u>407,535</u>	<u>458,322</u>	<u>(50,787)</u>
Total net position	<u>\$ 541,599</u>	<u>\$ 590,861</u>	<u>\$ (49,262)</u>

Cash in treasury decreased compared to the prior year, but there was a corresponding increase in due from other governments as well. The State does not allow the Cooperative to keep large sums of federal dollars (Part B and Preschool) on hand so the goal is to request only sufficient dollars to cover expenditures throughout the year. However in fiscal year 2014, the Cooperative received \$42,622 in Medicaid IEP dollars that can be carried over if not expended. Only \$1,608 of these Medicaid dollars were expended as of June 30, 2014, which subsequently helped with the overall cash balance and financial position of the Cooperative.

The Cooperative's capital assets mainly consist of vehicles and office equipment. The Cooperative purchased three new vehicles during the current fiscal year. The net cost of the capital assets increased by \$1,525.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

**FINANCIAL ANALYSIS (CONTINUED)**

Overall, the Cooperative's increase in liabilities, when added to the decrease in assets, netted to a \$49,262 decrease in net position. This decrease in net position is a decrease of \$77,199 from the previous year's increase in net position.

The following table shows the changes in net position for fiscal year 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
<b>REVENUES</b>			
Program revenues:			
Operating grants/contributions	\$ 1,592,162	\$ 1,552,656	\$ 39,506
General revenues:			
Interest	2,232	2,041	191
Miscellaneous	4,667	946	3,721
Special item – gain (loss) on sale of assets	<u>9,194</u>	<u>(11,023)</u>	<u>20,217</u>
Total revenues	<u>1,608,255</u>	<u>1,544,620</u>	<u>63,635</u>
<b>PROGRAM EXPENSES</b>			
Special programs:			
Instructional services	80,437	77,319	3,118
Supportive services	1,193,914	1,064,530	129,384
General administrative services	28,219	36,069	(7,850)
School administrative services	187,296	169,830	17,466
Operation and maintenance services	15,237	8,057	7,180
Student transportation services	905	429	476
Transfer to school districts	<u>151,509</u>	<u>160,449</u>	<u>(8,940)</u>
Total expenses	<u>1,657,517</u>	<u>1,516,683</u>	<u>140,834</u>
Change in net position	<u>\$ (49,262)</u>	<u>\$ 27,937</u>	<u>\$ (77,199)</u>

Comparing the Statement of Activities for the two years, total revenues increased \$63,635, while total expenses increased \$140,834, resulting in a net decrease in the change in net position of \$77,199.

The funding for the Cooperative is somewhat different than school districts. The Cooperative has to meet a certain level of spending with both the general fund and federal funds. Because of maintenance of effort (MOE), expenditures in the general fund must meet or exceed what was spent the previous year. Federal and state funding has been relatively stagnant, reducing the level of carryover dollars available to fill the following year's budgets. One significant difference between the budgets set by the Cooperative vs. a school district is the cooperative expenditures may exceed the budget limits as long as there are cash dollars available.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

**FINANCIAL ANALYSIS (CONTINUED)**

The Cooperative is mainly funded by Federal IDEA Part B and Pre-School Grant monies allocated based on federal special education allocations; this year we also had Medicaid IEP monies that can carry over. It is important for the Coop to keep the State Allowable Special Education expenditures fairly static both at the Coop level and also with member schools if possible. This may keep the federal dollars at current levels but the federal government is reducing grant levels based on the declining enrollments of the member schools. Pre-School dollars have remained very static for several years. Fortunately, the Part B monies are large enough that the Cooperative has carry-over dollars available to assist with funding the next year's program. This carryover amount is declining and may be a problem going forward impacting State Allowable expenditures. The Cooperative is also funded by the member districts, based on the overall ANB of the member districts.

The Retirement Fund Budget is built through carryover dollars and contributions from one designated school district in each County, and the amount allocated per County to the Retirement Fund is pro-rated according to the number of students served in their Counties. This is a County-wide levy for the schools, so there is no unfair impact on any district paying for their County's portion.

Salary benefits paid to employees through the General Fund are covered through the Retirement Fund. Salaries and benefits are also paid to employees through the Part B and Pre-School Grant Monies. As long as the Coop employees, paid through State Allowable dollars, remain fairly level, the retirement fund levels should too. Because of salary increases there will be corresponding yearly increases in retirement costs.

Federal dollars are declining and there have been only slight increases in the State funding. The Medicaid IEP monies will provide some relief if expenditures continue to rise. Salaries and benefits are the major expenditures, and no one knows what will happen with health insurance. To date the Coop has been able to provide a single medical, dental, vision premium per FTE, but pending questions remain regarding cost and availability.

School supportive services increased by \$129,384 over the previous year due to hiring additional specialists to cover the increasing needs of the member schools, as well as increases in salaries and benefits for the specialists.

General administrative services decreased by \$7,850 while school administrative services increased \$17,466 from the previous year due to reclassification of expenditures as compared to the previous year.

Operations and maintenance services increased by \$7,180 over the previous year.

Student transportation services increased by \$476 from the previous year.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

**FINANCIAL ANALYSIS (CONTINUED)**

Transfers to other school districts are driven by the number of special needs students moving into member schools. Transfers to other districts declined by \$8,940 from the previous year. Member districts sometimes need assistance if special needs students enroll unexpectedly after budgets are set; this year requests were down. As long as the Cooperative can continue their conservative spending practices they will be able to continue supporting member districts when needed.

**THE COOPERATIVE'S MAJOR FUNDS**

Four major funds have been identified according to GASB 34 rules. They are the general fund, the retirement fund, the IDEA Part B Project 456 fund and the IDEA Preschool Project 457 fund. The function of each of these funds is described in the notes to financial statements.

**CAPITAL ASSETS**

As of June 30, 2014, the Cooperative had invested \$277,013 in capital assets, primarily machinery and equipment. The Cooperative purchased three new vehicles during fiscal year 2014 totaling \$50,195. Total depreciation expense for the year was \$32,100.

The following schedule presents capital asset balances net of depreciation as of June 30, 2014:

Machinery and equipment	\$ 277,013
Less accumulated depreciation	<u>(142,949)</u>
Capital assets, net of depreciation	<u>\$ 134,064</u>

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Cooperative serves twenty-one member schools throughout seven counties. This year the requests for contingency funds declined slightly. However, with declining enrollments in the smaller rural schools they will continue to need assistance from the Cooperative. The Cooperative is conservative in its spending practices but costs will continue to rise as salaries and benefits increase as well as costs for goods and services.

The Director did an excellent job of managing funds for the Cooperative. As a result, all of the components continue to be fully funded. As we project into the future, this will not continue at the current rate of funding. There have been carryover dollars available to the Cooperative that has made it possible to proceed with "business as usual". However, the spending necessary to operate the Cooperative is beyond the allotment and the carryover dollars are being significantly depleted. In looking at the current state of the Cooperative, adjustments will need to be made continuing into fiscal year 2015.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**  
**(CONTINUED)**

Given that the needs of our students continue to increase and the number of staff we have to meet those needs, the Cooperative is pressed to the limits without more funding. We anticipate needing to hire more positions for the next school year and this will not be possible without the additional funding. The specific professionals employed by the Cooperative also contribute to the need for additional funds. Speech pathologists and occupational therapists are especially difficult to find, and as such, they are able to acquire jobs in places with much higher wages than is possible with the Cooperative. On the positive side, one of the attractions of working with the Cooperative is that it affords a shorter working year and smaller caseloads. But not having the ability to fund enough positions makes larger caseloads a necessity and takes away the benefit of taking the lesser paying job.

The Cooperative has always sent IDEA Part B monies to member schools to fund the salary increases for their special education staff, as well as to cover additional salary and special education costs as allowed. Because of the declining federal and state funds, the Board is considering reducing those payments to the member schools. Ultimately, the special education costs for the member schools will increase. Going forward, the Cooperative will have to look at ways to reduce expenditures and that will affect staffing.

**CONTACT FOR ADDITIONAL INFORMATION**

If you have further questions regarding this report, please contact Kris Magruder, Cooperative Director, at 406-271-7558; or Afton Lamoreaux, Business Manager/District Clerk, at 406-278-5521.

FINANCIAL STATEMENTS

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 STATEMENT OF NET POSITION  
 June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash in treasury	\$ 410,441
Due from other governments	<u>147,891</u>
Total current assets	<u>558,332</u>
Noncurrent assets:	
Capital assets:	
Machinery and equipment	\$ 277,013
Less accumulated depreciation	<u>(142,949)</u>
Total capital assets, net of depreciation	<u>134,064</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 692,396</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Cash overdraft	\$ 145,326
Other current liabilities	<u>802</u>
Total current liabilities	<u>146,128</u>
Noncurrent liabilities:	
Compensated absences payable	<u>4,669</u>
<b>TOTAL LIABILITIES</b>	<u>150,797</u>
<b>NET POSITION</b>	
Net investment in capital assets	134,064
Restricted - program	42,877
Unrestricted	<u>364,658</u>
<b>TOTAL NET POSITION</b>	<u>541,599</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 692,396</u></u>

The Notes to Financial Statements are an integral part of this statement.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>GOVERNMENTAL ACTIVITIES:</b>					
Current:					
Special Programs:					
Instructional services	\$ 80,437	\$ -	\$ 78,392	\$ -	\$ (2,045)
Supportive services	1,193,914	-	1,164,726	-	(29,188)
General administrative services	28,219	-	30,462	-	2,243
School administrative services	187,296	-	155,687	-	(31,609)
Operation and maintenance services	15,237	-	16,448	-	1,211
Transportation services	905	-	977	-	72
Retirement costs	-	-	63,979	-	63,979
Transfers to other districts	<u>151,509</u>	<u>-</u>	<u>81,491</u>	<u>-</u>	<u>(70,018)</u>
 Total Governmental Activities	 <u>\$ 1,657,517</u>	 <u>\$ -</u>	 <u>\$ 1,592,162</u>	 <u>\$ -</u>	 <u>(65,355)</u>
 <b>GENERAL REVENUES:</b>					
Interest					2,232
Miscellaneous					4,667
Special item - gain on sale of capital assets					<u>9,194</u>
 Total general revenues					 <u>16,093</u>
 <b>Change in net position</b>					 <b>(49,262)</b>
 Net position at July 1, 2013					 <u>590,861</u>
 Net position at June 30, 2014					 <u>\$ 541,599</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2014

	General Fund	Retirement Fund	IDEA Part B Project 456 37-9755-7712	IDEA Preschool Project 457 37-9755-7912	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash in treasury	\$ 314,893	\$ 36,745	\$ -	\$ -	\$ 58,803	\$ 410,441
Due from other governments	2,000	-	145,891	-	-	147,891
Interfund balance	<u>-</u>	<u>6,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,132</u>
<b>TOTAL ASSETS</b>	<u>\$ 316,893</u>	<u>\$ 42,877</u>	<u>\$ 145,891</u>	<u>\$ -</u>	<u>\$ 58,803</u>	<u>\$ 564,464</u>
<b>LIABILITIES</b>						
Cash overdraft	\$ -	\$ -	\$ 145,326	\$ -	\$ -	\$ 145,326
Due to other governments	-	-	-	-	-	-
Other current liabilities	237	-	565	-	-	802
Unearned revenue	-	-	-	-	-	-
Interfund balance	<u>6,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,132</u>
<b>TOTAL LIABILITIES</b>	<u>6,369</u>	<u>-</u>	<u>145,891</u>	<u>-</u>	<u>-</u>	<u>152,260</u>
<b>FUND BALANCE</b>						
Fund balances:						
Restricted	-	42,877	-	-	-	42,877
Assigned	-	-	-	-	58,803	58,803
Unassigned	<u>310,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,524</u>
<b>TOTAL FUND BALANCE</b>	<u>310,524</u>	<u>42,877</u>	<u>-</u>	<u>-</u>	<u>58,803</u>	<u>412,204</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 316,893</u>	<u>\$ 42,877</u>	<u>\$ 145,891</u>	<u>\$ -</u>	<u>\$ 58,803</u>	<u>\$ 564,464</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2014

Total fund balance - governmental funds \$ 412,204

Amounts reported for governmental activities in  
the statement of net position are different because:

Capital assets used in governmental activities  
are not reported as assets in governmental  
funds. The cost of the assets is \$277,013  
and the accumulated depreciation is \$142,949 134,064

Long-term liabilities are not due and payable  
in the current period and therefore are not  
reported as liabilities in the funds. Long-term  
liabilities at year-end consist of compensated  
absences payable of \$4,669. (4,669)

Total net position - governmental activities \$ 541,599

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2014**

	General Fund	Retirement Fund	IDEA Part B Project 456 37-9755-7712	IDEA Preschool Project 457 37-9755-7912	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
State special ed. cooperative payment	\$ 392,783	\$ -	\$ -	\$ -	\$ -	\$ 392,783
Federal/State Aid	-	-	978,429	32,858	42,622	1,053,909
Interest	1,062	170	-	-	1,000	2,232
Resources transferred from						
other school districts	81,491	63,979	-	-	-	145,470
Miscellaneous	<u>4,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,667</u>
Total	<u>480,003</u>	<u>64,149</u>	<u>978,429</u>	<u>32,858</u>	<u>43,622</u>	<u>1,599,061</u>
<b>EXPENDITURES</b>						
Current:						
Special Programs:						
Instructional services	25,288	3,908	50,513	728	-	80,437
Supportive services	327,366	53,451	746,442	31,225	1,608	1,160,092
General administrative services	-	-	28,219	-	-	28,219
School administrative services	139,339	16,185	31,772	-	-	187,296
Operation and maintenance services	3,885	-	11,352	-	-	15,237
Transportation services	-	-	-	905	-	905
Retirement costs	-	-	-	-	-	-
Resources transferred to						
other school districts	57,878	-	93,631	-	-	151,509
Capital Outlay	<u>33,695</u>	<u>-</u>	<u>16,500</u>	<u>-</u>	<u>-</u>	<u>50,195</u>
Total	<u>587,451</u>	<u>73,544</u>	<u>978,429</u>	<u>32,858</u>	<u>1,608</u>	<u>1,673,890</u>
Excess of revenues over (under) expenditures	<u>(107,448)</u>	<u>(9,395)</u>	<u>-</u>	<u>-</u>	<u>42,014</u>	<u>(74,829)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of capital assets	<u>25,764</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,764</u>
Total	<u>25,764</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,764</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(81,684)</b>	<b>(9,395)</b>	<b>-</b>	<b>-</b>	<b>42,014</b>	<b>(49,065)</b>
Fund balance at July 1	<u>392,208</u>	<u>52,272</u>	<u>-</u>	<u>-</u>	<u>16,789</u>	<u>461,269</u>
Fund balance at June 30	<u>\$ 310,524</u>	<u>\$ 42,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,803</u>	<u>\$ 412,204</u>

The Notes to Financial Statements are an integral part of this statement.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2014

Total net change in fund balance - governmental funds \$ (49,065)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures (\$50,195) exceed depreciation expense (\$32,100) in the period 18,095

In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used or *paid*. This is the amount by which vacation and sick leave earned exceeded the amounts used (1,722)

Sale of capital assets in governmental funds represents gross proceeds received from the sale, while the statement of activities reflects the loss on the sale (gross proceeds less net cost) (16,570)

Total change in net position - governmental activities \$ (49,262)

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the Big Sky Special Needs Cooperative (Cooperative) are presented below:

**Reporting Entity**

The Cooperative provides special education services, within Pondera, Glacier, Toole, Teton, Lewis and Clark, and Chouteau counties, to elementary and secondary level students enrolled at its member school districts. The Cooperative is managed by an Advisory Board made up of one representative from each member district, except that the respective County Superintendents of Schools represent several of the smaller school districts. These Advisory Board members are appointed by each of their elected Board of Trustees.

The Advisory Board has appointed a Director to administer the policies which they have established. The Director is directly responsible to the Advisory Board. School District Number 10, Pondera County, is the "host district" for the Cooperative. Cash is held by the Pondera County Treasurer and all of the Cooperative's warrants clear through the Treasurer's office. County Commissioners of the counties mentioned above have no oversight authority over the Cooperative except for levying taxes for support of the retirement fund.

The Office of Public Instruction approves the budgets for the Retirement, IDEA Part B and IDEA Preschool funds. Neither the State of Montana nor the counties mentioned above significantly influence the operations of the Cooperative; thus the Cooperative is being treated as a separate and independent unit of local government, and meets the criteria for a primary government embodied in GASB Statement No. 61 "The Financial Reporting Entity," of a separately elected governing body, a separate legal standing and fiscal independency.

**Fund Accounting**

The accounts of the Cooperative are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues, and expenditures. The following funds are maintained by the Cooperative:

General Fund - to account for revenues and expenditures of the Cooperative not accounted for in other funds.

*Special Revenue Funds*

Retirement Fund - to account for the employer's contribution to Medicare, the Teachers' Retirement System, the Public Employees' Retirement System, and Unemployment Compensation, and the revenues derived from these purposes.

IDEA Part B Fund - to account for a Federal grant for supplemental salaries and supplies for special education needs including summer school programs.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Accounting (Continued)**

*Special Revenue Funds (Continued)*

IDEA Preschool Fund - to account for a Federal grant for screening children prior to their entry into school.

BSSNC Fund - to account for moneys received by the Cooperative from local sources.

*Agency Funds*

Claims Clearing Fund - accounts for receipts from operating funds for payment of approved expenditure claims of the Cooperative. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

Payroll Clearing Fund - accounts for receipts from operating funds for their portions of payroll costs and the payroll disbursements to employees and state and federal agencies. Cash remaining in this fund at year-end represents warrants issued but not yet presented by the payee for payment. The total of the outstanding warrants are netted against the cash balance of the fund on the basic financial statements.

**Basis of Presentation**

The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Cooperative's financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

The statement of net position and the statement of activities display information about the Cooperative as a whole. Any interfund activity has been eliminated to minimize any possible double-counting of such internal activities.

The statement of net position presents the financial condition of the governmental activities of the Cooperative at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

*Government-wide Financial Statements (Continued)*

program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues are presented as general revenues of the Cooperative. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from general revenues of the Cooperative.

*Fund Financial Statements*

During the year, the Cooperative segregates transactions related to certain Cooperative functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Cooperative at this more detailed level. The emphasis of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Generally accepted accounting principles require the general fund be reported as a major fund, as well as all other governmental funds whose assets, liabilities, revenues, or expenditures exceed 10% or more of the total for all governmental funds. Accordingly, the Cooperative reports the General Fund, the IDEA Part B/Project 456 Fund, and the Retirement Fund as major funds. The Cooperative has elected to report the IDEA Preschool/Project 457 Fund as a major fund as well.

**Measurement Focus/Basis of Accounting**

The government-wide financial statements of the Cooperative are reported using the economic resources measurement focus under 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 flows take place. Nonexchange transactions, in which the Cooperative gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements of the Cooperative are reported using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus/Basis of Accounting (Continued)**

Revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to grant revenues, two types of revenues must be considered. In one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the Cooperative. Therefore, revenues are recognized based upon the expenditures recorded. At year end, any excess receipts over expenditures recorded are reflected as unearned revenue in the liability section of the balance sheet. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These moneys are recognized as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenues of the Cooperative are recognized as revenue when both the measurable and available criteria are met. Expenditures are recognized when the liability is incurred, except for accumulated compensated absence benefits. Compensated absence benefits are recognized as an expenditure when paid.

**New Accounting Pronouncement**

The Cooperative has adopted the provisions of the following GASB pronouncement for the year ended June 30, 2014:

- Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

**Accounting Standards Effective in a Future Period**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This Statement establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective for fiscal years beginning after June 15, 2014. The effect of adopting the Standard cannot be determined at this time.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets**

Budgets are prepared on the basis of accounting described above, except that encumbrances are included in expenditures. The General, Retirement, IDEA Part B and IDEA Preschool funds are considered budgeted funds, which mean that a budget must be adopted in order to spend any money from the funds. These budgets are adopted according to the level of funding approved by the Office of Public Instruction. The BSSNC Fund is not legally required to adopt a budget prior to the spending of money. Budget transfers may be made between expenditure objects and/or functions within the same fund. Budgets are adopted based on the time requirements of the particular funding agency.

**Cash and Investments**

All cash is held in the custody of the Pondera County Treasurer in the Cooperative's name.

**Property Taxes**

The Cooperative has no authority to levy or collect property taxes. Its funding sources are limited to Federal and State grants and assessments on member school districts.

**Inventories**

Inventories are reported as expenditures at the time of purchase. Inventories of materials and supplies on hand are not maintained, which is not in accordance with generally accepted accounting principles. The amounts on hand are not material to the financial statements taken as a whole.

**Capital Assets**

All purchased capital assets are valued at historical cost where historical cost records are available and at estimated historical cost where no historical records exist. Purchases of capital assets with a cost of \$5,000 or greater are included as additions to capital assets. Donated fixed assets are recorded at estimated fair market value as of the date received. Capital assets are depreciated using the straight-line method over the following useful lives:

Machinery and equipment	8-20 years
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**Liability for Compensated Absences**

Compensated absences for vacation and sick leave are recorded as expenditures in the governmental funds when taken. Unused vacation leave, within certain limitations, is paid out to the employee at year end. Sick leave is accumulated for administrative and classified (non-teaching) employees at the rate of 12 working days for each year of service. Part-time employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Upon termination, classified employees are eligible for compensation at one-fourth of the accumulated sick leave amount.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance**

The Cooperative has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable**

Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted**

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed**

Amounts that can be used only for specific purposes determined by a formal action of the Advisory Board. The Advisory Board is the highest level of decision-making authority for the Cooperative. Commitments may be established, modified, or rescinded only through a majority vote on a motion proposed by the Advisory Board.

**Assigned**

Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Intent can be expressed by the Advisory Board or by the Cooperative's director to which the Advisory Board delegates that authority.

**Unassigned**

All other spendable amounts that are not categorized in the above fund balance categories.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Cooperative considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Cooperative considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH AND INVESTMENTS**

Montana statutes authorize the Cooperative to invest in 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 repurchase agreements; or in the State Short-Term Investment Pool (S.T.I.P.). All cash is held in the custody of the Pondera County Treasurer and invested, along with the moneys of other governmental entities within the county, in an investment pool, consisting of investments in S.T.I.P. and U.S. government agencies. The Cooperative receives a pro-rata share of investment earnings at each distribution date. Under generally accepted accounting principles, the Cooperative is required to comply with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools." This pronouncement requires governmental entities to record certain investments in external investment pools at fair market value, rather than historical cost. Investment in S.T.I.P. is classified as a "2a-7-like pool," which allows the investment to be reported at amortized cost, thus no adjustment to fair market value is necessary. Cost of the investments in U.S. government agencies approximates market value.

The county-wide pool's investment in S.T.I.P. is subject to various risks.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, investment in S.T.I.P. is not considered to be subject to interest rate risk as it is treated as a "2a-7-like" pool, allowing reporting at amortized cost rather than fair value.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of or guaranteed by the U.S. government do not require disclosure of credit quality. Investments within S.T.I.P. have credit risk as measured by major credit rating services. This risk is that the issuer of a S.T.I.P. investment may default in making timely principal and interest payments. The Montana Board of Investment's policy requires that S.T.I.P. investments have the highest investment grade rating in the short-term category by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The three NRSRO's recognized by S.T.I.P. include Standard and Poor's (S&P), Moody's, and Fitch. The short-term credit ratings presented below for S.T.I.P. in total are provided by S&P's rating services. An A1+ rating is the highest short-term rating by the S&P rating service. If a S.T.I.P. investment received a long-term rating, such as AAA, this rating was converted to a short-term rating. If an S&P rating is not available, a Moody's rating has been used.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

Credit quality ratings of S.T.I.P. in total as of June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1
Corporate Commercial Paper	138,958,389	A1
Corporate Variable-Rate	658,894,083	A1
Certificate of Deposit Fixed	100,000,000	A1
Certificate of Deposit Variable	391,996,239	A1+
Other Asset Backed	38,440,281	NR
U.S. Government Agency Fixed	75,003,275	A1+
U.S. Government Agency Variable	200,003,406	A1+
Money Market Funds (Unrated)	133,439,814	NR
Money Market Funds (Rated)	21,000,000	A1+
	<u>\$ 2,535,153,167</u>	<u>A1</u>

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. At June 30, 2014, none of the Cooperative's deposits were uninsured or uncollateralized.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Cooperative does not have a formal investment policy limiting the amount the Cooperative may invest in any one issuer. As there is minimal credit risk associated with investments issued or guaranteed by the U.S. Government, no disclosure of concentration of credit risk is required for these investments. The S.T.I.P. investment policy adopted by the Montana Board of Investments specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per issuer or 3% if the amount is greater than 2% and matures within seven days. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. Government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Given then explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in S.T.I.P.

Investments of the S.T.I.P. include certain derivative-type investments, such as asset-backed securities and variable-rate securities.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

The asset-backed securities are collateralized by non-mortgage assets pledged by the issuer, and have one or more forms of credit enhancement to raise the quality of the security. Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar nonasset-backed securities. Asset-backed securities make up 32.19% of the total S.T.I.P. assets at June 30, 2014.

The variable-rate securities are designed to minimize the investor's interest rate risk by periodically resetting the interest rate to either the prime rate or the London Interbank Offering Rate. Variable-rate securities have credit risk identical to similar fixed-rate securities, while their market risk is less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield. Variable-rate securities make up 49.34% of the total S.T.I.P. assets at June 30, 2014.

**NOTE 3. CAPITAL ASSETS**

A summary of activity in capital assets is as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets being depreciated				
Machinery and equipment	\$ 258,018	\$ 50,195	\$ (31,200)	\$ 277,013
Total capital assets being depreciated	258,018	50,195	(31,200)	277,013
Less accumulated depreciation				
Machinery and equipment	(125,479)	(32,100)	14,630	(142,949)
Capital assets being depreciated, net	<u>132,539</u>	<u>18,095</u>	<u>(16,570)</u>	<u>134,064</u>
Capital assets, net	<u>\$ 132,539</u>	<u>\$ 18,095</u>	<u>\$ (16,570)</u>	<u>\$ 134,064</u>

Depreciation expense was charged to functions as follows:

Supportive services	<u>\$ 32,100</u>
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BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 4. COMPENSATED ABSENCES**

Compensated absences payable, representing vacation and sick leave benefits earned by employees and payable upon termination, is \$4,669 and is recorded as a liability in the government-wide financial statements. As benefits earned during the next fiscal year are expected to be used by employees before any accrued benefits, benefits payable at June 30, 2014 are considered a long-term liability.

The following is a summary of the changes in compensated absences for the fiscal year ended June 30, 2014.

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Compensated absences payable	\$ 2,947	\$ 1,722	* \$ -	\$ 4,669

\*This is the net increase in compensated absences payable.

**NOTE 5. RESOURCES TRANSFERRED FROM OTHER SCHOOL DISTRICTS**

Resources transferred into the Cooperative from other school districts for the year ended June 30, 2014, consist of \$81,491 of net transfers included in the General Fund and \$63,979 of transfers included in the Retirement Fund. A breakdown by school district is as follows:

Auchard Creek	\$ 1,083
Augusta	1,406
Bynum/Miller	3,527
Choteau	25,364
Conrad	26,916
Cut Bank	27,904
Dupuyer	1,000
Dutton/Brady	2,862
Fairfield	5,095
Galata	1,000
Golden Ridge/New Rockport	4,430
Greenfield	5,054
Heart Butte	3,143
Hidden Lake	1,000
Miami	1,000
Mountain View	1,000
Pendroy	3,520
Power	2,266
Shelby	7,759
Sunburst	16,169
Valier	2,972
Zenith	1,000
	<u>\$ 145,470</u>

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 6. FUND BALANCE**

As of June 30, 2014, fund balances are comprised of the following:

	General Fund	Retirement Fund	IDEA Part B Project 456	IDEA Part B Preschool 457	Nonmajor Governmental Funds	Total Governmental Funds
<b>RESTRICTED</b>						
Retirement costs	\$ -	\$ 42,877	\$ -	\$ -	\$ -	\$ 42,877
<b>ASSIGNED</b>						
Cooperative operations	-	-	-	-	58,803	58,803
<b>UNASSIGNED</b>						
Cooperative operations	<u>310,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,524</u>
Total fund balances	<u>\$ 310,524</u>	<u>\$ 42,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,803</u>	<u>\$ 412,204</u>

**NOTE 7. RETIREMENT PLANS**

Substantially all Cooperative full-time employees participate in one of two statewide cost sharing multiple-employer retirement benefit plans.

**Plan Description**

*Teachers' Retirement System (TRS)*

The Cooperative contributes to the Teachers' Retirement System (TRS). TRS is a statewide retirement plan established in 1937 and is governed by Title 19, Chapter 4 of the Montana Code Annotated providing retirement services to all certified teaching employees, including the Cooperative's director. TRS is a mandatory multiple-employer, cost sharing plan administered by the Teachers' Retirement Board (TRB).

TRS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service, or 30 years of service regardless of age. Actuarial reduced benefits may be taken at age 50 with at least five years of service.

Monthly retirement benefits are determined by taking 1/60 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the state legislature.

TRS financial information is reported in the Teachers' Retirement Board's published "Comprehensive Annual Financial Report" for the fiscal year end. It is available from TRB at 1500 Sixth Avenue, Helena, MT 59620-0139, 406-444-3134.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 7. RETIREMENT PLANS (CONTINUED)**

**Plan Description (Continued)**

*Public Employees' Retirement System (PERS)*

The Cooperative contributes to the Public Employees' Retirement System (PERS). PERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. PERS is a mandatory multiple-employer, cost sharing plan administered by the Public Employees' Retirement Division (PERD), consisting of a defined benefit plan and a defined contribution plan. New employees to the system have twelve months to decide whether to participate in the defined contribution plan or the defined benefit plan. If an election is not made within the twelve months, the employee must then participate in the defined benefit plan.

PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the highest average salary for employees with less than 25 years of service, or 1/50 times the number of years of service times the highest average salary for those employees with at least 25 years of service. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the state legislature.

PERS financial information is reported in the Public Employees' Retirement Board's published "Comprehensive Annual Financial Report" for the fiscal year end. It is available from PERD at 1712 Ninth Avenue, P.O. Box 200131, Helena, MT 59620-0131, 406-444-3154.

**Funding Policy**

	<u>PERS</u>	<u>TRS</u>
Authority to establish and amend contribution rates to the plan:	State legislature	State legislature
Required plan member contributions:	7.9% of monthly compensation	8.15% of monthly compensation
Required employer contributions:	8.07% of monthly compensation	8.47% of monthly compensation
Required state contributions:	.37% of monthly compensation	2.49% of monthly compensation

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 7. RETIREMENT PLANS (CONTINUED)**

**Funding Policy (Continued)**

	<u>PERS</u>	<u>TRS</u>
Required employer contributions received and percent of required amount:		
June 30, 2014	\$ 2,616 100%	\$ 75,293 100%
June 30, 2013	\$ 2,085 100%	\$ 62,525 100%
June 30, 2012	\$ 1,798 100%	\$ 62,345 100%

On-behalf payments made by the State of Montana totaled \$120 and \$22,123 for PERS and TRS, respectively, for the year ended June 30, 2014.

**NOTE 8. LEASE AGREEMENT**

The Cooperative rents office space from School District Number 10, Pondera County. The rental agreement is negotiated yearly and is for space located at a school within the district.

Rent charged to the Cooperative for the year ended June 30, 2014 was \$8,000.

**NOTE 9. RISK MANAGEMENT**

The Cooperative faces a considerable number of risks of loss, including damage to and loss of property and contents, employee torts, and professional liability, (i.e. errors and omissions). A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for property and content damage and professional liabilities. Coverage limits and the deductibles in the commercial policies have stayed relatively constant for the last several years. The premiums for the policies are paid out of the Cooperative's general fund. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. The Cooperative participates in the State Workers' Compensation Program, and obtains medical coverage through "MUST," the Montana Unified School Trust Group.

REQUIRED SUPPLEMENTARY INFORMATION

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
<b>REVENUES</b>				
State special ed. cooperative payment	\$ 392,784	\$ 392,784	\$ 392,783	\$ (1)
Federal/State Aid	-	-	-	-
Interest	1,800	1,800	1,062	(738)
Resources transferred from other school districts	58,000	58,000	81,491	23,491
Miscellaneous	-	-	4,667	4,667
<b>Total</b>	<u>452,584</u>	<u>452,584</u>	<u>480,003</u>	<u>27,419</u>
<b>EXPENDITURES</b>				
Current:				
Special Programs:				
Instructional services	32,780	32,780	25,288	7,492
Supportive services	358,995	358,995	327,366	31,629
General administrative services	-	-	-	-
School administrative services	131,250	131,250	136,239	(4,989)
Operation and maintenance services	-	-	3,885	(3,885)
Transportation services	-	-	-	-
Retirement costs	-	-	-	-
Resources transferred to other school districts	58,000	58,000	57,878	122
Capital Outlay	-	-	33,695	(33,695)
<b>Total</b>	<u>581,025</u>	<u>581,025</u>	<u>584,351</u>	<u>(3,326)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	25,764	25,764
<b>Total</b>	<u>-</u>	<u>-</u>	<u>25,764</u>	<u>25,764</u>
Excess of Revenues				
Over (Under) Expenditures	<u>\$ (128,441)</u>	<u>\$ (128,441)</u>	(78,584)	<u>\$ 49,857</u>
Fund Balance at July 1, 2013			<u>389,108</u>	
Fund Balance at June 30, 2014			<u>\$ 310,524</u>	

The Notes to Required Supplementary Information are an integral part of this statement.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**RETIREMENT FUND**  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
<b>REVENUES</b>				
State special ed. cooperative payment	\$ -	\$ -	\$ -	\$ -
Federal/State Aid	-	-	-	-
Interest	-	-	170	170
Resources transferred from other school districts	66,300	66,300	63,979	(2,321)
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>66,300</u>	<u>66,300</u>	<u>64,149</u>	<u>(2,151)</u>
<b>EXPENDITURES</b>				
Current:				
Special Programs:				
Instructional services	5,928	5,928	3,908	2,020
Supportive services	77,072	77,072	53,451	23,621
General administrative services	-	-	-	-
School administrative services	35,572	35,572	16,185	19,387
Operation and maintenance services	-	-	-	-
Transportation services	-	-	-	-
Retirement costs	-	-	-	-
Resources transferred to other school districts	-	-	-	-
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>118,572</u>	<u>118,572</u>	<u>73,544</u>	<u>45,028</u>
Excess of Revenues				
Over (Under) Expenditures	<u>\$ (52,272)</u>	<u>\$ (52,272)</u>	(9,395)	<u>\$ 42,877</u>
Fund Balance at July 1, 2013			<u>52,272</u>	
Fund Balance at June 30, 2014			<u>\$ 42,877</u>	

The Notes to Required Supplementary Information are an integral part of this statement.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**IDEA PART B/PROJECT 456**  
**For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		Favorable (Unfavorable)
<b>REVENUES</b>				
State special ed. cooperative payment	\$ -	\$ -	\$ -	\$ -
Federal/State Aid	1,094,684	1,094,684	978,429	(116,255)
Interest	-	-	-	-
Resources transferred from other school districts	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total</b>	<u>1,094,684</u>	<u>1,094,684</u>	<u>978,429</u>	<u>(116,255)</u>
<b>EXPENDITURES</b>				
Current:				
Special Programs:				
Instructional services	54,620	54,620	50,513	4,107
Supportive services	813,864	813,864	746,442	67,422
General administrative services	57,200	57,200	28,219	28,981
School administrative services	33,500	33,500	31,772	1,728
Operation and maintenance services	25,000	25,000	11,352	13,648
Transportation services	2,500	2,500	-	2,500
Retirement costs	-	-	-	-
Resources transferred to other school districts	108,000	108,000	93,631	14,369
Capital Outlay	-	-	16,500	(16,500)
<b>Total</b>	<u>1,094,684</u>	<u>1,094,684</u>	<u>978,429</u>	<u>116,255</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance at July 1, 2013			-	
Fund Balance at June 30, 2014			<u>\$ -</u>	

The Notes to Required Supplementary Information are an integral part of this statement.

**BIG SKY SPECIAL NEEDS COOPERATIVE**  
**CONRAD, MONTANA**  
**BUDGETARY COMPARISON SCHEDULE**  
**IDEA PRESCHOOL/PROJECT 457**  
**For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
<b>REVENUES</b>				
State special ed. cooperative payment	\$ -	\$ -	\$ -	\$ -
Federal/State Aid	32,858	32,858	32,858	-
Interest	-	-	-	-
Resources transferred from other school districts	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total</b>	<u>32,858</u>	<u>32,858</u>	<u>32,858</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
Special Programs:				
Instructional services	1,468	1,468	728	740
Supportive services	28,916	28,916	31,225	(2,309)
General administrative services	-	-	-	-
School administrative services	-	-	-	-
Operation and maintenance services	-	-	-	-
Transportation services	2,474	2,474	905	1,569
Retirement costs	-	-	-	-
Resources transferred to other school districts	-	-	-	-
Capital Outlay	-	-	-	-
<b>Total</b>	<u>32,858</u>	<u>32,858</u>	<u>32,858</u>	<u>-</u>
Excess of Revenues				
Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance at July 1, 2013			-	
Fund Balance at June 30, 2014			<u>\$ -</u>	

The Notes to Required Supplementary Information are an integral part of this statement.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 June 30, 2014

**NOTE 1. BUDGETARY BASIS OF ACCOUNTING**

The major difference between the budgetary basis of accounting and generally accepted accounting principles used in preparing the financial statements are the recording of encumbrances under the budgetary basis. Encumbrances allowed under state law are commitments related to unperformed contracts for the purchase of personal property or to complete construction projects. Under the budgetary basis of accounting such encumbrances are allowed to be recorded as expenditures in the year the commitments arise. Encumbrances outstanding at year-end are reported within the fund balance classifications related to the purposes for which resources have already been provided. All unexpended appropriations in funds for which appropriations are adopted lapse at year-end, other than those encumbered as set forth in Section 20-9-209, MCA. Encumbered amounts will be added to the following year's budget for each fund encumbering expenditures in order to maintain budget authority. Encumbrances reported at the end of the current fiscal year must be liquidated by the end of the following fiscal year. The Cooperative utilized an encumbrance system for budgetary reporting for the year ended June 30, 2014. Encumbrances of \$0 of the General Fund are reflected as expenditures on the Budgetary Comparison Schedule – General Fund for the year ended June 30, 2014.

There were no adjustments necessary to convert the results of operations as of June 30, 2014 on the modified accrual basis for the other major funds to the budgetary basis.

Adjustments necessary to convert the results of operations as of June 30, 2014 on the modified accrual basis for the General Fund to the budgetary basis are as follows:

Excess of revenue over expenditures (GAAP)	\$ (81,684)
Due to expenditure:	
Encumbrances at 6/30/13	3,100
Encumbrances at 6/30/14	<u>-</u>
Deficiency of revenue over expenditures (budget)	<u>\$ (78,584)</u>

Adjustments necessary to convert fund balance as of June 30, 2014 on the modified accrual basis for the General Fund to the budgetary basis are as follows:

Fund balance, 6/30/14 (GAAP)	\$ 310,524
Due to expenditure:	
Encumbrances at 6/30/14	<u>-</u>
Fund balance, 6/30/14 (budget)	<u>\$ 310,524</u>

SINGLE AUDIT SECTION

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*

Advisory Board  
Big Sky Special Needs Cooperative  
Conrad, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Sky Special Needs Cooperative, Conrad, 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 and have issued our report thereon dated January 16, 2015.

**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 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 as #2014-01, #2014-02 and #2014-03 that we consider to be significant deficiencies.

### **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*.

### **The Cooperative's Response to Findings**

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

### **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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Anderson Zurmuehlen & Co., P.C." The signature is written in dark ink and is positioned above the typed name and date.

Great Falls, Montana  
January 16, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

Advisory Board  
Big Sky Special Needs Cooperative  
Conrad, Montana

**Report on Compliance for the Major Federal Program**

We have audited Big Sky Special Needs Cooperative, Conrad, Montana's (the Cooperative) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Cooperative's major federal program for the year ended June 30, 2014. The Cooperative's major federal program is 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 the Cooperative's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

**Opinion on the 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 its major federal program 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.



Great Falls, Montana  
January 16, 2015

**BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014**

<u>Project</u>	Federal CFDA <u>Number</u>	Project <u>Number</u>	<u>Award</u>	Cash Balance <u>7/1/2013</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Cash Balance <u>6/30/2014</u>
<b>U. S. Department of Education</b>							
Passed Through State							
Department of Education							
<i>Special Education Cluster (IDEA)</i>							
Idea Part B	84.027	037-9755-7714	\$ 1,292,373	\$ 107,549	\$ 893,535	\$ 1,146,410	\$ (145,326)
Idea Preschool	84.173A	037-9755-7917	32,858	<u>1,039</u>	<u>32,858</u>	<u>33,897</u>	<u>-</u>
<b>Total U. S. Department of Education</b>				<u>108,588</u>	<u>926,393</u>	<u>1,180,307</u>	<u>(145,326)</u>
<b>Total Federal Awards</b>				<u>\$ 108,588</u>	<u>\$ 926,393</u>	<u>\$ 1,180,307</u>	<u>\$ (145,326)</u>

The Notes to Schedule of Expenditures of Federal Awards is an integral part of this statement.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2014

**NOTE 1. REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of Big Sky Special Needs Cooperative, Conrad, Montana. The Cooperative's reporting entity is defined in Note 1 to the Cooperative's basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. All federal financial assistance received, cash and noncash, is included as well as all federal financial assistance expended or consumed.

BIG SKY SPECIAL NEEDS COOPERATIVE  
 CONRAD, MONTANA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2014

**Summary of Auditor Results:**

*Financial Statements:*

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness identified? None

Significant deficiencies identified that are not considered  
to be material weakness? Yes

Noncompliance material to financial statements? None

*Federal Awards:*

Internal control over major programs:

Material weakness identified? None

Significant deficiencies identified that are not considered  
to be material weaknesses? None reported

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 section .510(a) of Circular A-133? None

The major programs for the year ended June 30, 2014 are as follows:

	<u>CFDA#</u>
IDEA Part B/Preschool cluster	#84.027 and #84.173A

Dollar threshold used to distinguish Type A programs: \$300,000

Auditee qualified as low-risk auditee? No

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Financial Statements**

**Finding #2014-01**

*Condition:* The Cooperative's responsibility is to prepare its financial statements in accordance with GAAP.

*Criteria:* The Cooperative is certainly allowed to hire out preparation of its financial statements but the ultimate responsibility for the fairness of the financial statement presentation remains with the Cooperative.

*Cause:* The Cooperative does not have anyone on staff with the training necessary to prepare or oversee the preparation of its financial statements in accordance with GAAP.

*Effect:* The Cooperative is unable to adequately determine if their financial statements as prepared on their behalf fairly present the Cooperative's activity as of and for the period ended, in accordance with GAAP.

*Recommendation:* The Cooperative should hire an outside qualified person or send appropriate in-house individuals to training courses to obtain the qualifications necessary to prepare the Cooperative's financial statements in accordance with GAAP.

*Management Response:* The Cooperative does not believe that the benefits of instituting this control would justify the costs and chooses not to implement at this time. The Cooperative will investigate other options in order to address the spirit of the recommendation.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Financial Statements (Continued)**

**Finding #2014-02**

*Condition:* The Cooperative has not yet implemented Governmental Accounting Standards Board (GASB) Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.”

*Criteria:* GASB Statement No. 45 requires the governmental employer to compute and disclose the cost of these benefits in the periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded by the employer, and provide information useful in assessing potential demands on the employer’s future cash flows.

*Cause:* The Cooperative does not believe the cost of implementing GASB No. 45 exceeds the benefit of reporting the potential liability.

*Effect:* The Cooperative’s liabilities reflected on the statement of net position and the expenses reflected on the statement of activities are likely misstated, although the total effect of the potential misstatement cannot be determined.

*Recommendation:* The Cooperative should seek the services of a qualified actuary to obtain the information needed to properly report OPEB costs on the District’s financial statements, in accordance with GASB No. 45.

*Management Response:* The cost to implement the recommendation to this finding would be prohibitive at this time, compared to the benefits to be received.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Financial Statements (Continued)**

**Finding #2014-03**

*Condition:* In our testing of forty disbursements, we noted there was no supervisory approval on two of twenty timesheets selected (both for hourly employees) and no supervisory approval on six of twenty vendor invoices selected.

*Criteria:* The Cooperative's responsibility is to ensure accuracy of all employee timesheets and vendor invoices submitted, as well as indicate proper supervisory approval.

*Cause:* Employees turning in their timesheets late, thus not allowing time for proper review and approval by the Director, as well as the Director reviewing but not signing off on employee timesheets or vendor invoices.

*Effect:* Employees could be paid for hours not actually worked and the Cooperative could pay vendor invoices that are not for goods or services received by the Cooperative.

*Recommendation:* The Cooperative Director should review all timesheets of employees, especially hourly employees, in order to verify the accuracy of the information reported on the timesheets. Employees should be encouraged to turn in their timesheets on a timelier basis in order to allow the Cooperative Director sufficient review and approval time. The Cooperative Director should also review and approve all vendor invoices, in order to confirm legitimate goods or services were received.

*Management Response:* The Cooperative Director is responsible for verifying and approving time sheets. This issue is being addressed at employee orientations and other personnel meetings. Time sheets are the responsibility of the employee, but with the employees living in different communities it is somewhat more difficult sending to the Director and then sending to the payroll clerk for processing on a timely basis. The employees have been informed to fax or e-mail timesheets to both the director's office and to the payroll clerk's office when there is a delay in submitting. The Clerk will review the timesheets to ensure they are signed, and will notify the Director of any unsigned timesheets that require his signature prior to processing.

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Findings Relating to Federal Awards**

None

BIG SKY SPECIAL NEEDS COOPERATIVE  
CONRAD, MONTANA  
STATUS OF PRIOR AUDIT FINDINGS  
June 30, 2014

Previously noted deficiencies of Big Sky Special Needs Cooperative, Conrad, Montana, and their current status are as follows:

<u>Finding</u>	<u>Current Status of Recommendation</u>
#2013-01 The Cooperative does not have an individual on staff trained to prepare its financial statements in accordance with GAAP.	Not implemented. See current year's finding on page 43.
#2013-02 The Cooperative has not implemented the provisions of GASB No. 45.	Not implemented. See current year's finding on page 44.
#2013-03 The Cooperative did not have supervisory approval on two of twenty timesheets.	Not implemented. See current year's finding on page 45.



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