

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

**YELLOWSTONE COUNTY
BILLINGS, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal years Ended June 30, 2013 & 2014

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Eastern Yellowstone Special Services Cooperative
Yellowstone County
Billings, Montana 59101

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Eastern Yellowstone Special Services Cooperative
Yellowstone County
Billings, Montana 59101

ORGANIZATION

BOARD OF TRUSTEES FISCAL YEARS 2013 & 2014

Wes Coy	Chair
Larry Fink	Vice Chair
Dan Jamieson	Trustee
Tobin Novasio	Trustee
Dave Perkin	Trustee

OFFICIALS

Leonard Orth	Director
Roger Heimbigner	Clerk
Max R. Lenington	County Superintendent
Scott Twito	County Attorney

EASTERN YELLOWSTONE
SPECIAL SERVICES COOPERATIVE
BILLINGS, MONTANA

MANAGEMENT DISCUSSION AND ANALYSIS –
JUNE 30, 2013 and JUNE 30, 2014

This Management Discussion and Analysis (MD&A) written by the Cooperative Clerk and Director of the Eastern Yellowstone Special Services Cooperative provides an overview of the financial position and governmental financial activities for the fiscal years ended June 30, 2013, and June 30, 2014. Please read it in conjunction with our audit report financial statements.

FINANCIAL HIGHLIGHTS FOR 2013 and 2014:

The Financial position of the Cooperative has changed as a result of operations for fiscal year 2013 and 2014. Between ending fiscal years 6/30/12 and 6/30/14, there was a decrease in net position from \$208,945 (6/30/13) to \$205,076 (6/30/14), which represents a 1.85% decrease in net position. The primary reason for the decrease in net position is the decline of depreciation of \$6,352 offset by increases of assets by \$2,482 (total decline is \$3,869).

The Cooperative's General fund revenues were minimally increased between 2013 and 2014, with general fund revenues in 2013 of \$277,224, and revenues in 2014 of \$283,761. This represents a 2.36% increase.

Miscellaneous Program Funds (which include IDEA Part B and IDEA Preschool, and Medicaid) decreased from \$813,436 in 2013 to \$715,921 in 2014, constituting a 11.99 decrease in federal funding. This decrease reflects mostly a reduction in the use of IDEA Part B dollars (\$101,516) that were used toward funding the budget in FY14. Reserves built up in the Medicaid account were used towards balancing the budget in FY14 with an increase in expenses of Medicaid dollars of \$57,412. The total expenses in FY2013 in misc. federal funds were \$796,802. In FY2014, total expenses were \$715,921 which is a reduction of \$80,881. The majority of the reduction came from the elimination of one speech path position and a reduction in the resources transferred to member districts.

USING THIS AUDIT REPORT

Statement No. 34 of the Governmental Accounting Standards Board (GASB) requires the general format of this report. Components and purposes of the report are explained below.

REPORTING THE COOPERATIVE AS A WHOLE

One important question asked about Cooperative finances is, "Is the Cooperative, as a whole, in a better or worse financial position as a result of the year's activities?" The Statement of Revenues, Expenditures, and Changes in Fund Balance report information about the cooperative as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by most private sector companies. This analysis compares fiscal years ending in 2013 and 2014.

The change in net position over time is one indicator of whether the Cooperative's financial health is improving or deteriorating. However, there are other non-financial factors that influence the financial health of the Cooperative, such as enrollment changes in member districts, changes in how the State of Montana funds educational costs, and changes in the tax base of the member school districts.

The report includes two cooperative-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting.

A. The Balance Sheet shows the assets, liabilities, and the net position 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 equipment and other long-lived property; and some assets are available to fund budgets of the following year. Assets exceed liabilities by \$208,945 as of 6/30/13 and also exceed liabilities by \$205,076 as of 6/30/14.

B. The Statement of Revenues, Expenditures, and Changes in Fund Balance shows the amounts of program-specific and general cooperative revenues used to support the various functions of the cooperative. Since the Cooperative's main objective is to provide support services to member districts, this is exemplified by 84% and 83% of program expenditures being attributed to support services in fiscal years ending 2013 and 2014 respectively.

REPORTING THE COOPERATIVE'S MOST SIGNIFICANT FUNDS

The fund 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 into separate fund accounts.

The fund statements report balances and activities of the most significant or major funds separately and combine 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. To be reported as a major fund, total assets, liabilities, revenues, or expenditures of an individual fund must be at least 10 percent of the corresponding element totals (assets, liabilities, etc.) for all funds. The general fund is always reported as a major fund. Fund 15 (Miscellaneous Programs Fund) is comprised of IDEA Part B and Preschool funds, as well as Medicaid funds, and Inter-agency Agreement funds. Fund 15 is the other most significant fund of the Cooperative.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as general funds and miscellaneous program funds. These funds use the modified accrual basis of accounting and represent the majority of the cooperative's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the cooperative statements. Most significant differences result from the use of different presentation bases. The cooperative 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 district-wide statements but not in the fund statements.

BUDGET TO ACTUAL COMPARISONS

Cooperatives are required to expend the Interlocal fund in total each year (or alternatively designate the remaining cash balance to a specific future expenditure). IDEA Part B and Preschool cash balances are to be returned to the Office of Public Instruction at the end of each fiscal year, to be carried over in future Part B grants. Net position are derived from interest as well as Medicaid monies carried over from previous fiscal years.

THE COOPERATIVE AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As stated previously, the Cooperative experienced a decrease in net position of \$4,108 for FY2013 and FY2014. Please see Financial Highlights section above.

Combined ending fund balances for all funds increased from \$224,511 in 2013 to \$226,755 in 2014. Details of the changes in the major funds are explained below:

The fund balance of the General Fund increased from \$3,207 fiscal year end 2013, to \$3,567 fiscal year end 2014. This was a minimum increase between the two years.

Miscellaneous Program Fund balance went from \$213,104 fiscal year end 2013 to \$215,887 fiscal year end 2014. This was a minimum increase between the two years.

CAPITAL ASSETS

The Cooperative's net investment in capital assets as of June 30, 2014, totaled \$9,537. Capital assets for the Cooperative consist of 5 vehicles and 1 copier. The Cooperative rents space from one of its member districts, which alleviates all other capital assets such as land, construction, etc. Capital Asset balances in the area of Machinery & Equipment net of depreciation for the fiscal year ended June 30, 2012 total \$23,569.

DEBT ADMINISTRATION

Debt Administration: The cooperative is in a very healthy position with regard to long-term liabilities. We have no capital leases outstanding, nor any outstanding bonds. The only long-term liability of the district is for the future payout of vacation leave, sick leave, and termination/severance pay for all employees of the cooperative in the amount of \$18,382 as of 6/30/14. This amount of the liability decreased \$1,893 over 2013 due to retirement/vacation pay out. Classified staff vacation hours are paid off annually and do not accrue.

THE FUTURE OF THE COOPERATIVE

The Management Board of the Cooperative is made up of five representatives, chosen from the seven districts on the Joint Advisory Board. Of these seven districts, the three largest districts hold standing positions on the Management Board, and the other two positions are elected annually from among the remaining four. At this time, all five positions on this Management Board are held by the superintendents of the five districts, as appointed by their own school boards. Member districts address their intentions to "recommit" to membership in the Cooperative annually. Nonparticipating districts within the Cooperative's region are notified annually of their option to also join the cooperative. No nonparticipating districts have indicated an intention to join for the coming 21 months. All current members have submitted recommitments, indicating a stable membership for the coming 36 months. The Board schedules monthly meetings during the school year to review expenditures and discuss the general operation of the co-op.

As reflected in the recent audit, the Cooperative's financial state is sound. Revenue streams have leveled out so in the future the Cooperative will need to monitor expenditures to adapt to leveled-out revenue sources. Since the major expenses of the Cooperative are salaries/benefits and flow-through dollars to member districts, the only way to maintain fund balance is to keep staffing costs constant or to reduce the flow-through dollars to member districts. As salaries/benefits increase maintaining the same staffing level, there will be a need to dip into fund balance to offset these increases or to reduce the amount of dollars going back to member districts.

It is proving increasingly difficult to fill all of our certified/licensed positions (i.e., school psychologists, speech, physical and occupational therapists). This is common across the state and at a national level. The present combination of speech therapists and speech aides is proving effective from both service delivery and financial standpoints. Though we interviewed eight school psychologist candidates this past summer, none of them appeared to possess the skills we were seeking, so we have changed the service delivery model for this discipline. It will remain to be seen if the Board wishes to maintain this model of service delivery or choose to continue the search for a third psychologist.

Member district enrollment has remained steady since the establishment of the Co-op. It is expected that enrollment in member districts will continue to remain stable, or grow, as there are significant housing developments and business expansions under construction in several of the member communities.

The co-op does not have burdensome overhead expenses of maintaining buildings, student transportation or extracurricular activities. Member districts provide office space to co-op employees at no cost, with the exception of a modest rent agreement with Lockwood school, where our main office and storage is located. Our only significant maintenance cost is for the cooperative's fleet of five vehicles. Use of these vehicles saves the Co-op 30-50% over the practice of paying employees mileage for use of their own vehicles.

The cooperative has the unique luxury of having over 90% of the students we serve within 20 miles of Billings. This allows us to spend less time traveling, more time on site providing direct services to students, and ultimately allows us to hire fewer staff. As a result, the cooperative was one of the few co-ops in the state to not assess member districts fees for cooperative membership, and to actually "flow through" federal funds to its member districts.

The state of Montana has been examining the efficiency of cooperatives as a means of addressing public school funding challenges. It is possible that cooperatives will be called upon to expand into other education-related disciplines in the future. Subsequently, the outlook for cooperatives in general, and our organization in specific, continues to be positive.

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Eastern Yellowstone Special Services Cooperative
Yellowstone County
Billings, Montana 59101

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund information of Eastern Yellowstone Special Services Cooperative (EYSSC) as of and for the years ended June 30, 2013 and 2014, and the related notes to the financial statements, which collectively comprise the Coop'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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of EYSSC as of June 30, 2013 and 2014, and the respective changes in financial position thereof for the years 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 (pages 3-5) 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 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 inquires 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 Eastern Yellowstone Special Services Cooperative's basic financial statements. The schedule of expenditures of federal awards (page 29-31) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The accompanying, schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015 on our consideration of EYSSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EYSSC internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
January 13, 2015

Eastern Yellowstone Special Services Coop
 Yellowstone County
 Billings, MT 59101

STATEMENT OF NET POSITION
 as of June 30, 2013

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 224,511
Total Current Assets	<u>224,511</u>
Noncurrent Assets:	
Capital Assets:	
Net Depreciable Assets	15,889
Total noncurrent assets	<u>15,889</u>
Total Assets	<u>\$ 240,400</u>
LIABILITIES:	
Current Liabilities:	
Current Portions Compensated Absences	\$ 2,028
Total Current Liabilities	<u>2,028</u>
Noncurrent Liabilities:	
Long-Term Obligations	11,180
Compensated Absences	18,247
Total noncurrent Liabilities	<u>29,427</u>
Total Liabilities	<u>31,455</u>
NET POSITION:	
Net Investment in Capital Assets	15,889
Restricted	221,304
Unrestricted (deficit)	<u>(28,248)</u>
Total Net Position	<u>208,945</u>
Total Liabilities and Net Position:	<u>\$ 240,400</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government
GOVERNMENT OPERATIONS				
Instructional Services	\$ 930	\$ -	\$ 930	\$ -
Support Services	993,200	96,323	747,754	(149,123)
General Administrative Services	153,812	-	39,710	(114,102)
Operation & Maintenance Services	25,041	-	25,041	-
Unallocated Depreciation Expense *	7,680	-	-	(7,680)
Total Governmental Activities	1,180,663	96,323	813,436	(270,905)
GENERAL REVENUES				
Other State Revenues				277,224
Interest				1,913
Other				1,294
Total General Revenues				280,431
Change in Net Position				9,526
Net Position				
Beginning of the Year				181,373
Prior Period Adjustments				18,046
End of the Year				\$ 208,945

* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2013

	MAJOR			Total Governmental Funds
	General Fund	Retirement Fund	Miscellaneous Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 3,207	\$ 8,200	\$ 213,104	\$ 224,511
Total Assets	<u>\$ 3,207</u>	<u>\$ 8,200</u>	<u>\$ 213,104</u>	<u>\$ 224,511</u>
LIABILITIES:				
Total Liabilities	-	-	-	-
FUND BALANCE:				
Fund Balances:				
Restricted	-	8,200	213,104	221,304
Unassigned:	3,207	-	-	3,207
Total Fund Balance	<u>3,207</u>	<u>8,200</u>	<u>213,104</u>	<u>224,511</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,207</u>	<u>\$ 8,200</u>	<u>\$ 213,104</u>	<u>\$ 224,511</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 224,511
Governmental Capital Assets	15,889
Long-term Liabilities	
Long-Term Obligations	(11,180)
Compensated Absences	<u>(20,275)</u>
Net Position of Governmental Activities	<u>\$ 208,945</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the year ended June 30, 2014

	MAJOR			Total Governmental Funds
	General Fund	Retirement Fund	Miscellaneous Fund	
REVENUES:				
Interest	\$ 1,913		\$ -	\$ 1,913
Charges for Services	50,415	45,908	-	96,323
Other	1,294		-	1,294
State	277,224		68,038	345,261
Federal	-	-	745,398	745,398
Total Revenues	<u>330,845</u>	<u>45,908</u>	<u>813,436</u>	<u>1,190,189</u>
EXPENDITURES:				
Current				
Instructional Services	-	-	930	930
Support Services	232,843	31,489	731,121	995,453
General Administrative Services	101,196	12,906	39,710	153,812
Operation & Maintenance Services	-	-	25,041	25,041
Total Expenditures	<u>334,039</u>	<u>44,395</u>	<u>796,803</u>	<u>1,175,236</u>
NET CHANGES IN FUND BALANCES	(3,194)	1,513	16,633	14,953
FUND BALANCE:				
Beginning of the Year	6,401	6,687	196,471	209,558
End of the Year	<u>\$ 3,207</u>	<u>\$ 8,200</u>	<u>\$ 213,104</u>	<u>\$ 224,511</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Eastern Yellowstone Special Services Coop
Yellowstone County
Billings, MT 59101

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

Net Changes in Fund Balance		\$	14,953
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(7,680)		
(Increase) decrease in compensated absence liability	<u>2,253</u>		<u>(5,427)</u>
Change in net position reported on the Statement of Activity		\$	<u>9,526</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Eastern Yellowstone Special Services Coop
Yellowstone County
Billings, MT 59101

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
as of June 30, 2013

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 27,297
Total Assets	<u>27,297</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	<u>27,297</u>
Total Liabilities	<u>27,297</u>
NET POSITION:	
Total Net Position	0

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Eastern Yellowstone Special Services Coop
 Yellowstone County
 Billings, MT 59101

STATEMENT OF NET POSITION
 as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 226,755
Total Current Assets	<u>226,755</u>
Noncurrent Assets:	
Net Depreciable Assets	<u>9,537</u>
Total noncurrent assets	<u>9,537</u>
Total Assets	<u>\$ 236,292</u>
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	\$ 2,028
Total Current Liabilities	<u>2,028</u>
Noncurrent Liabilities:	
Long-Term Obligations	13,975
Compensated Absences	<u>18,396</u>
Total noncurrent Liabilities	<u>32,371</u>
Total Liabilities	<u>34,399</u>
NET POSITION:	
Net Investment in Capital Assets	9,537
Restricted	223,187
Unrestricted (deficit)	<u>(30,832)</u>
Total Net Position	<u>201,893</u>
Total Liabilities and Net Position:	<u>\$ 236,292</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government
GOVERNMENT OPERATIONS				
Instructional Services	\$ 102	\$ -	\$ 102	\$ -
Support Services	926,204	101,017	586,115	(239,072)
Educational Media Services	1,066	-	1,066	-
General Administrative Services	163,732	-	112,757	(50,975)
Operation & Maintenance Services	15,881	-	15,881	-
Unallocated Depreciation Expense *	6,352	-	-	(6,352)
Total Governmental Activities	1,113,337	101,017	715,921	(296,398)
GENERAL REVENUES				
Other State Revenues				283,761
Interest				1,119
Other				4,466
Total General Revenues				289,346
Change in Net Position				(7,052)
Net Position				
Beginning of the Year				208,945
End of the Year				\$ 201,893

* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	MAJOR			Total Governmental Funds
	General Fund	Retirement Fund	Miscellaneous Fund	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	3,567	7,300	215,887	226,755
Total Assets	<u>\$ 3,567</u>	<u>\$ 7,300</u>	<u>\$ 215,887</u>	<u>\$ 226,755</u>
LIABILITIES:				
Total Liabilities	-	-	-	-
FUND BALANCE:				
Fund Balances:				
Restricted	-	7,300	215,887	223,187
Assigned	-	-	-	-
Unassigned:	3,567	-	-	3,567
Total Fund Balance	<u>3,567</u>	<u>7,300</u>	<u>215,887</u>	<u>226,755</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,567</u>	<u>\$ 7,300</u>	<u>\$ 215,887</u>	<u>\$ 226,755</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 226,755
Governmental Capital Assets	9,537
Long-term Liabilities	
Long-Term Obligations	(13,975)
Compensated Absences	<u>(20,424)</u>
Net Position of Governmental Activities	<u>\$ 201,893</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the year ended June 30, 2014

	MAJOR			Total Governmental Funds
	General Fund	Retirement Fund	Miscellaneous Fund	
REVENUES:				
Interest	\$ 1,119	\$ -	\$ -	\$ 1,119
Charges for Services	52,814	48,203	-	101,017
Other	1,683	-	8,925	10,608
State	283,761	-	58,014	341,775
Federal	-	-	651,766	651,766
Total Revenues	339,377	48,203	718,704	1,106,284
EXPENDITURES:				
Current				
Instructional Services	-	-	102	102
Support Services	296,403	40,742	586,115	923,260
Educational Media Services	-	-	1,066	1,066
General Administrative Services	42,614	8,361	112,757	163,732
Operation & Maintenance Services	-	-	15,881	15,881
Total Expenditures	339,016	49,103	715,921	1,104,041
NET CHANGES IN FUND BALANCES	360	(900)	2,783	2,244
FUND BALANCE:				
Beginning of the Year	3,207	8,200	213,104	224,511
End of the Year	\$ 3,567	\$ 7,300	\$ 215,887	\$ 226,755

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Eastern Yellowstone Special Services Coop
Yellowstone County
Billings, MT 59101

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

Net Changes in Fund Balance	\$	2,244
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(6,352)	
(Increase) decrease in Other Post Employment Benefits	(2,795)	
(Increase) decrease in compensated absence liability	<u>(149)</u>	<u>(9,296)</u>
Change in net position reported on the Statement of Activity	\$	<u>(7,052)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Eastern Yellowstone Special Services Coop
Yellowstone County
Billings, MT 59101

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
as of June 30, 2014

	<u>June 30, 2014</u>
	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ <u>23,583</u>
Total Assets	<u>23,583</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	<u>23,583</u>
Total Liabilities	<u>23,583</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Eastern Yellowstone Special Services Cooperative (EYSSC) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The Coop applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal years 2013 and 2014 the Coop adopted the following:

- GASB Statement No. 61 - The Financial Reporting Entity, which amended GASB Statement No. 14 and No. 34. The amendment amended the criteria for reporting component units. This statement did not represent a change in the Coop's reporting entity.
- GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The statement eliminated the need for state and local governments to reference the use of the Financial Accounting Standards Board (FASB) and place all sources of generally accepted accounting principles for state and local governments in a single source.
- GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which revised the terminology for financial reporting from “net assets” to “net position” and introduced “deferred outflows/deferred inflows” terminology. There is no effect on the financial statements only a terminology change.
- GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This statement made changes in major fund determination and the use of the term “deferred”. For the Coop deferred property taxes are reported as an element of deferred inflows of resources.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal years 2013 and 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Coop has not extended any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the Coop assessment of effects to the financial statements.

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal years 2013 and 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the Coop.
- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the Coop to expand its pension foot note disclosures. The Coop plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal years 2013 and 2014. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Coop is not merging with another Coop or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Coop plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

Eastern Yellowstone Special Services Coop was formed by the school districts of several counties to assist for in administering the school districts' special education programs. It is separate and apart from these school districts for financial reporting purposes. All of the school districts of the Coop are represented by a member of the five person governing board. The Coop manages its own operations, personnel, and financial activity.

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

The criteria for including organizations as component units within the Coop's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the Coop's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the Coop. Based on those criteria this district has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Cooperative as a whole except for the agency funds.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as membership fees and Medicaid fees, and
- Operating grants that are restricted to a particular functional program.

County payments and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

Fund financial statements provide information on EYSSC's major governmental funds that include all three Cooperative funds so no non-major funds are reported.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period, anything collected after June 30 are generally not material. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available.

GASB Statement No. 34 requires the general fund be reported as a major fund and this Coop shows its interlocal agreement fund as its general fund. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds and that includes all Coop funds. There is only one fund that does not meet those criteria so it is shown as a major fund and that includes all Coop funds. The following funds are major funds of Eastern Yellowstone Special Services Coop:

- General Fund – The General Fund is the general operating fund of the Coop and accounts for all revenues and expenditures of the Coop not encompassed within other funds. All membership revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

- Retirement Fund – This fund is used to account for financing the employer’s contribution to the Teachers’ Retirement System (TRS), the Public Employees’ Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for Coop employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of Coop programs are deposited in this fund.

1. b. 3 OTHER FUND TYPES

Agency Funds – The Agency Funds generally are used to account for assets that the Cooperative holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the Cooperative. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Yellowstone County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

1. c. 2 INVENTORIES

Materials, supplies and food inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

1. c. 3 CAPITAL ASSETS

The Coop’s property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The Coop considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Depreciation on capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Machinery and Equipment	5 – 8 years
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1.c. 4 VACATION AND SICK LEAVE

Cooperative employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Coop employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Coop employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid.

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$2,028 and \$2,042 for 2013 and 2014 respectively and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$20,275 and \$20,424 for 2013 and 2014 respectively.

1.c.5 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2013, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Third Party Grantor Restrictions	\$ 213,104
Employer Retirement Benefits	8,200
Total	<u>\$ 221,304</u>

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Third Party Grantor Restrictions	\$ 215,887
Employer Retirement Benefits	7,300
Total	<u>\$ 223,187</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Coop considers restricted funds to have been spent first. When an expenditure is incurred for assigned or unassigned fund balances are available, the Coop considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the board of trustees has provided otherwise.

1.c.6 Budget

Budgets are adopted and approved for each federal grant by the cooperative as a management tool only. Budgets are not legally binding and thus a budget and actual financial statement is not shown.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2013, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 224,511</u>	<u>\$ 27,297</u>	<u>\$ 251,808</u>

The carrying amount of cash on hand, deposits and investments at June 30, 2013, is as follows:

	<u>Amount</u>
County Investment Pool	\$ 251,808

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

At June 30, 2014, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 226,755	\$ 23,583	\$ 260,238

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
County Investment Pool	\$ 260,238

Cash resources of the Cooperative are held and managed by the Yellowstone County treasurer. They are combined with cash resources of other governmental entities within Yellowstone County to form a pool of cash and cash equivalents. At June 30, 2013 and June 30, 2014 the investments of pooled cash consist primarily of Repurchase agreements and U.S. government securities respectively, and are carried at fair value.

NOTE 3. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

3. a. At June 30, 2013, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>Depreciable:</u>					
Major Equipment	\$ 68,597	\$ 0	\$ 0	\$ 0	\$ 68,597
<u>Accumulated Depreciation:</u>					
Major Equipment	\$ (45,028)	\$ (7,680)	\$ 0	\$ 0	\$ (52,708)
Net Governmental Capital As- sets	\$ 23,569	\$ (7,680)	\$ 0	\$ 0	\$ 15,889

3. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Depreciable:</u>					
Major Equipment	\$ 68,597	\$ 0	\$ 0	\$ 0	\$ 68,597
<u>Accumulated Depreciation:</u>					
Major Equipment	\$ (52,708)	\$ (6,352)	\$ 0	\$ 0	\$ (59,060)
Net Governmental Capital As- sets	\$ 15,889	\$ (6,352)	\$ 0	\$ 0	\$ 9,537

3. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>FY 2013</u>	<u>FY2014</u>
Unallocated	\$ 7,680	\$ 6,352

NOTE 4. RISK MANAGEMENT

The Cooperative is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several 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 contents damage, employee torts, professional liabilities, and employee medical insurance. The Coop has joined with other Coops throughout the state into an interlocal common risk pool to insure workers compensation for all participating entities in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the Coop other than timely payments of premiums. The Coop can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The Coop has no coverage for potential losses from environmental damages.

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 5. EMPLOYEE RETIREMENT SYSTEM

The Cooperative participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all Coop employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Teachers Retirement System	Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.doa.state.mt.us	www.state.mt.us/doa/perb/prb.htm

For fiscal year ended June 30, 2013 - The PERS rates for employees was 6.9% and for new hires after July 1, 2011, 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 6.8%. The TRS rates for employees was 7.15% and the State was set at 2.49%. The TRS rate for employers was 7.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the Coop's financial statements.

For the fiscal year ended June 30, 2014 - The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the Coop's financial statements.

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, Coop and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 78,254	\$ 77,544	\$ 80,904
PERS	2,607	2,822	3,172
Total	<u>\$ 80,861</u>	<u>\$ 80,366</u>	<u>\$ 84,076</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a At June 30, 2013, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 22,528	\$ 0	\$ (2,253)	\$ 20,275	\$ 2,028
Other Post-Employment Benefits (OPEB)	29,226	0	(18,046)	11,180	0
Total Other Liabilities	<u>\$ 51,754</u>	<u>\$ 0</u>	<u>\$ (18,046)</u>	<u>\$ 31,455</u>	<u>\$ 2,028</u>
Total Governmental Activities-Long-Term Debt:	<u>\$ 51,754</u>	<u>\$ 0</u>	<u>\$ (20,299)</u>	<u>\$ 31,455</u>	<u>\$ 2,028</u>

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

At June 30, 2014, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 20,275	\$ 149	\$ 0	\$ 20,424	\$ 2,028
Other Post-Employment Benefits (OPEB)	11,180	2,795	0	13,975	0
Total Other Liabilities	<u>\$ 31,455</u>	<u>\$ 2,795</u>	<u>\$ 0</u>	<u>\$ 34,399</u>	<u>\$ 2,028</u>
Total Governmental Activities-Long-Term Debt:	<u>\$ 31,455</u>	<u>\$ 2,795</u>	<u>\$ 0</u>	<u>\$ 34,399</u>	<u>\$ 2,028</u>

NOTE 7. PRIOR PERIOD ADJUSTMENTS

<u>Fiscal Year 2013 Fund</u>	<u>Amount</u>	<u>REASON</u>
GASB 34 only	\$ 18,046	Restatement of OPEB

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Coop provides the same health care plan to all of its members. The implicit subsidy is \$3,300 per member and \$6,600 per member and spouse. The Coop had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 5% of plan participants would elect to continue coverage after retirement. The Coop reevaluated its participation rate which was 100% in the previous valuation and determined that 10% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 13,694
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>13,694</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 483,871
UAAL as a percentage of covered payroll	3%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

Annual Required Contribution (ARC) – FY13	\$ 0
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	0
Contribution made	<u>0</u>
Increase in net OPEB obligation – FY13	0
Net OPEB obligation - beginning of year	29,226
Prior Period Adjustment	<u>(18,046)</u>
Net OPEB obligation – FY13	<u>\$ 11,180</u>

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2013 & 2014

Annual Required Contribution (ARC) – FY14	\$	2,795
Interest on net OPEB obligation		0
Adjustment to ARC		<u>0</u>
Annual OPEB cost (expense)		0
Contribution made		<u>0</u>
Increase in net OPEB obligation – FY14		2,795
Net OPEB obligation – beginning of year		<u>11,180</u>
Net OPEB obligation – FY14	\$	<u><u>13,975</u></u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	65
Discount rate (average anticipated rate)	1.0%
Average Salary Increase	2.0%

Health care cost rate trend	
Year	% Increase
2015	5.2%
2016	4.9%
2017	4.7%
2018	4.9%
2019	5.3%
2020	5.6%
2021 and after	5.7%

EASTERN YELLOWSTONE SPECIAL SERVICES COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
 Fiscal Years Ended June 30, 2013 & 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>7/1/2012</u>	<u>0</u>	<u>13,694</u>	<u>13,694</u>	<u>0</u>	<u>483,871</u>	<u>3%</u>

Eastern Yellowstone Coop
Yellowstone
Billings, Montana 59101

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
PASSED THROUGH MONTANA OFFICE OF PUBLIC IN- STRUCTION:				
Special Education Grants to States IDEA Part B	84.027	05696947713	916,811	711,842
Special Education Grants to States IDEA Preschool	84.173A	05696947913	33,556	33,556
Total U.S. Department of Education				<u>\$ 745,398</u>
Total Federal Financial Assistance				<u>\$ 745,398</u>

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule.

Eastern Yellowstone Coop
 Yellowstone
 Billings, Montana 59101

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	Program or Award Amount	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION DIRECT:				
PASSED THROUGH MONTANA OFFICE OF PUBLIC IN- STRUCTION:				
Special Education Grants to States IDEA Part B	84.027	5696947714	836,361	620,155
Special Education Grants to States IDEA Preschool	84.173A	5696947914	31,611	31,611
Total U.S. Department of Education				<u>\$ 651,766</u>
Total Federal Financial Assistance				<u>\$ 651,766</u>

The accompanying notes to the SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS are an integral part of this schedule.

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Eastern Yellowstone Special Services Cooperative under programs of the federal government for the years ended June 30, 2013 and 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of EYSSC, it is not intended to and does not present the financial position, changes in net assets or cash flows of EYSSC.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the same basis of accounting as the financial statements. Pass-through entity identifying numbers are presented where available

NOTE 3. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, Eastern Yellowstone Special Services Cooperative provided federal awards to sub-recipients as follows For FY13:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Sub-recipients</u>
84.173A	Lockwood SD	\$13,991
84.173A	Shepherd SD	8,080
84.173A	Huntley SD	11,485
84.027	Lockwood SD	162,130
84.027	Shepherd SD	103,056
84.027	Huntley SD	93,974
84.027	Hysham SD	13,820
84.027	Pioneer SD	12,241
Total		\$411,505

Of the federal expenditures presented in the Schedule, Eastern Yellowstone Special Services Cooperative provided federal awards to sub-recipients as follows For FY14:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Sub-recipients</u>
84.173A	Lockwood SD	\$13,593
84.173A	Shepherd SD	5,690
84.173A	Huntley SD	10,748
84.173A	Hysham SD	1,580
84.027	Lockwood SD	155,157
84.027	Shepherd SD	94,582
84.027	Huntley SD	86,257
84.027	Hysham SD	11,223
84.027	Custer SD	8,235
84.027	Pioneer SD	13,475
Total		\$400,540

NOTE 4. FOOTNOTES

- Fn1 – No separate funds or accounts maintained, the Coop assumes first in first out for program money.
- Fn2 – The value of commodities (revenues, expenses or inventory) are noted in the basic financial statements
- N/A – Not applicable/ available

STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Eastern Yellowstone Special Services Cooperative
Yellowstone County
Billings, Montana 59101

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Eastern Yellowstone Special Services Cooperative (EYSSC) as of and for the years ended June 30, 2013 and 2014, and the related notes to the financial statements, which collectively comprise the EYSSC's basic financial statements and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
January 13, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Eastern Yellowstone Special Services Cooperative
Yellowstone County
Billings, Montana 59101

Report on Compliance for Each Major Federal Program

We have audited Eastern Yellowstone Special Services Cooperative's 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 each of Eastern Yellowstone Special Services Cooperative's (EYSSC) major federal programs for the years ended June 30, 2013 and 2014. EYSSC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, EYSSC, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2013 and 2014

Report on Internal Control Over Compliance

Management of Eastern Yellowstone Special Services 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 EYSSC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal 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 EYSSC'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, non-compliance 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.

Purpose of this Report

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.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
January 13, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor, Strom & Associates, PC, has issued an unmodified opinion on Eastern Yellowstone Special Services Cooperative's (EYSSC) financial statements as of and for the year ended June 30, 2014.
2. Our audit disclosed no significant deficiencies in internal controls and none that are considered to be material weaknesses relating to internal controls over financial reporting and its operation.
3. Our audit disclosed no noncompliance which was material to the financial statements of EYSSC.
4. Our audit disclosed no significant deficiencies that are considered to be material weaknesses relating to internal controls over major federal awards programs.
5. The auditor, Strom & Associates, PC, has issued an unmodified opinion on EYSSC's compliance with major federal awards programs as of and for the year ended June 30, 2014.
6. The audit disclosed no audit findings which are required to be reported under section .510 of OMB Circular A-133.
7. The major program for EYSSC for the year ended June 30, 2014 was the IDEA Part B cluster.
8. The threshold used to distinguish between Type A and type B programs was \$300,000. EYSSC has IDEA Part B cluster as a type A programs.
9. This Cooperative does not qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with "Governmental Auditing Standards."

There were no findings or recommendations.

C. Findings and questioned costs for Federal awards, as defined in section .510 (a) of OMB Circular A-133.

The audit disclosed no findings or questioned costs relating to federal awards as defined in section .510 (a) of OMB Circular A-133.