

SHERIDAN DANIELS SPECIAL EDUCATION
COOPERATIVE
PLENTYWOOD, MONTANA

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

OPI Entity Code 46-9693

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
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SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
JUNE 30, 2014

BOARD OF TRUSTEES

Tony Holecek	Trustee
David Selvig	Trustee
Tiffani Anderson	Trustee

OFFICIALS

Joe Bennett	Cooperative Director
Shari Hurst	Cooperative Clerk
June A. Johnson	County Superintendent
Steven Howard	County Attorney



CHMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

741 Third Avenue South
Glasgow, Montana 59230
406-228-9391
FAX: 406-228-2063
1-800-755-2467
E-MAIL: glasgow@chmspc.com

Richard A. Wiens, CPA
Doris M. Leader, CPA
Diana W. Mattfeldt, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sheridan Daniels Special Education Cooperative
Plentywood, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Sheridan Daniels Special Education Cooperative, Plentywood, Montana, 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 error or fraud.

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.

OFFICES IN GLASGOW, MALTA, SIDNEY, WOLF POINT AND GLENDIVE

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 Sheridan Daniels Special Education Cooperative, Plentywood, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7, the accompanying schedule of revenues, expenditures, and changes in fund balances – budget and actual on pages 21-22, and the schedule of funding progress on page 23, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2015 on our consideration of Sheridan Daniels Special Education 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sheridan Daniels Special Education Cooperative's internal control over financial reporting and compliance.

CHMS, P.C.

CHMS, P.C.
Certified Public Accountants
Glasgow, MT
July 30, 2015

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
Sheridan and Daniels Counties
Plentywood, Montana

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014

The clerk of the Sheridan Daniels Special Education Cooperative has 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 cooperative for the fiscal year ending June 30, 2014.

USING THIS FINANCIAL REPORT

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

Reporting the Cooperative as a Whole

The report includes two government-wide statements that focus on operation of the cooperative as a whole. These statements measure inputs and outflows using economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The **Statement of Net Position** (page 8) 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. The cooperative does not have any assets that would be classified as a capital asset.

B. The **Statement of Activities** (page 9) shows the amounts of program-specific and general cooperative revenues used to support the cooperative’s various functions.

The Statement of Net Position and the Statement of Activities report the activities of the cooperative as follows:

Governmental activities -- The cooperative supporting services functions include student, administrative and business services. State and federal revenues along with district matches and transfers from member districts usually support most of these functions of the cooperative.

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, such as the general fund, retirement fund and the miscellaneous programs fund in separate fund accounts.

The fund 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. All of the cooperative’s funds are considered major funds.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds including the general fund, retirement fund and miscellaneous programs fund. 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 government-wide statements. Most significant differences result from the use of different presentation bases. The cooperative’s statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, the cooperative does not have any capital assets or general long-term debt to be reported in the financial statements.

Budget-to-Actual Comparisons

The cooperative’s original and final budgets were identical for the year ended June 30, 2014. The budgetary comparison schedules on page 21 show how actual expenditures compared to the original and final budgeted expenditures for the general fund. The following significant variances between the final expenditure budget and the actual expenditures exist:

Supporting services - Student - A positive variance of \$24,667 exists, which is 8% of the student supporting services budget. This variance exists due to unspent budgeted funds for contracted services of occupational therapy.

THE COOPERATIVE AS A WHOLE

Net position may serve over time as a useful indicator of a government’s financial position. Assets decreased by 9%. In the cooperative, assets exceeded liabilities by almost \$95,000 as of June 30, 2014, which is a decrease overall by 37%. Total liabilities increased by 71%. In FY 10 GASB statement No. 45 requires the cooperative to report “implicit rate subsidy” liability in group health insurance for retirees. The cooperative’s annual other post employment benefits increased by 73%.

Changes in Net position

Condensed Statement of Net position

	Governmental Activities		\$ Change	% Change
	FY 2013	FY 2014		
Cash and Investments	197,925	179,153	-18,772	-9%
Intergovernmental Receivable			0	--
Prepaid Expenses	2,587	2,412	-175	-7%
Total assets	200,512	181,565	-18,947	-9%
Current liabilities, Accounts Payable	1,302	5,000	3,698	284%
Current liabilities, Deferred Revenue	0	0	0	
Noncurrent liabilities, Compensated Absences	6,595	7,576	981	15%
Noncurrent liabilities, Other Post-Employment Benefits	42,728	74,093	31,365	73%
Total liabilities	50,625	86,669	36,044	71%
Net Position, restricted	112,817	121,231	8,414	7%
Net Position, unrestricted	37,070	-26,335	-63,405	-171%
Total net position	149,887	94,896	-54,991	-37%

General and Program Revenues

Changes in Net Position

	Governmental Activities		\$ Change	% Change
	FY 2013	FY 2014		
Revenues				
Program Revenues:				
Operating grants and contributions	524,848	460,638	-64,210	-12%
Capital grants and contributions	0	0	0	--
General Revenues:				
County Retirement Distribution	23,654	29,538	5,884	25%
Federal and State Aid not restricted	8,247	10,833	2,586	31%
Earnings on Investments	1,843	1,569	-274	-15%
Transfer from Other Districts/Other Intergovernmental Revenue	9,691	13,918	4,227	44%
Miscellaneous	192	0	-192	-100%
Total Revenues	568,475	516,496	-51,979	-9%
Program Expenses				
Instruction:				
Special Programs	189,524	193,220	3,696	2%
Supporting services:				
Student	288,392	315,878	27,486	10%
School Administration	15,121	14,519	-602	-4%
Business	13,180	14,089	909	7%
Operation and Maintenance	0	0	0	
Retirement	25,713	33,781	8,068	31%
Transfer to Other School District or Cooperative	0	0	0	--
Total Expenses	531,930	571,487	39,557	7%

The overall cooperative's total revenues for the fiscal year ended June 30, 2014 decreased by 9%, or \$51,979.00. The total cost of all programs and services increased approximately 7% or \$39,557.00. This is mostly due to the hiring of an occupational therapy aide, rather than contracted services, which also increased the retirement expenses by 31%. The comparison of net position from FY 13 to FY 14 decreased by approximately \$55,000, or 37%. This is due to a decrease of 9%, in cash. Total liabilities increased by 71% overall due to increased current liabilities, compensated absences, and the other post-employment benefit of 73% due to the 2009 GASB 45 requirement.

Spending Levels Compared to Resource Levels

	FY 13		FY 14	
Expenditures Supported with General Revenues (from taxes and other sources for general school use)	7,082	1%	110,849	19%
Expenditures Supported with Program Revenues	524,848	99%	460,638	81%
Total Expenditures Related to Governmental Activities	\$531,930	100%	\$571,487	100%

Most expenditures were supported with program revenues in FY 14, totaling 81%.

Capital Assets

The cooperative does not have any assets that meet the definition of a capital asset.

Debt Administration

As of June 30, 2014 the cooperative had \$7,576 in compensated absences payable, an increase of 15%.

Contact for Additional Information

If you have questions about this report or need additional information, contact the Director or Clerk at the Plentywood School District, 100 East Laurel Avenue, Plentywood, Montana 59254, or call 406-765-1803.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Governmental Activities
ASSETS	
Current Assets	
Cash and Investments (Note B)	\$ 179,153
Prepaid Expenses	2,412
Total Assets	181,565
LIABILITIES	
Current Liabilities	
Accounts Payable	5,000
Noncurrent Liabilities	
Other Post-Employment Benefits (Note H)	74,093
Compensated Absences (Note D)	7,576
Total Noncurrent Liabilities	81,669
Total Liabilities	86,669
NET POSITION	
Restricted for Cooperative Operations	121,231
Unrestricted	(26,335)
Total Net Position	\$ 94,896

See notes to the financial statements.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

<u>Functions</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
<u>Governmental Activities:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Instruction:					
Special Programs	\$ 193,220	\$ -	\$ 193,220	\$ -	\$ -
Supporting Services:					
Student	315,878	-	243,837	-	(72,041)
School Administration	14,519	-	11,968	-	(2,551)
Business	14,089	-	11,613	-	(2,476)
Retirement	33,781	-	-	-	(33,781)
Total Cooperative	\$ 571,487	\$ -	\$ 460,638	\$ -	(110,849)
General revenues:					
County Retirement Distribution					29,538
Other Intergovernmental Revenue					13,918
Federal and State Aid not Restricted to Specific Purposes					10,833
Earnings on Investments					1,569
Total General Revenues					55,858
Change in Net Position					(54,991)
Net Position - Beginning of Year					149,887
Net Position - End of Year					\$ 94,896

See notes to the financial statements.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2014

	General Fund	Retirement Fund	Miscellaneous Programs Fund	Total Governmental Funds
ASSETS				
Cash in County Treasury (Note B)	\$ 57,922	\$ 76,188	\$ 45,043	\$ 179,153
Prepaid Expenses	2,412	-	-	2,412
Total Assets	<u>\$ 60,334</u>	<u>\$ 76,188</u>	<u>\$ 45,043</u>	<u>\$ 181,565</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	\$ 5,000	\$ -	\$ -	\$ 5,000
Total Liabilities	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Fund Equity				
Fund Balance				
Nonspendable - Prepaid Items	2,412	-	-	2,412
Restricted for Cooperative Operations	-	76,188	45,043	121,231
Assigned for Working Capital	2,555	-	-	2,555
Unassigned	50,367	-	-	50,367
Total Fund Equity	<u>55,334</u>	<u>76,188</u>	<u>45,043</u>	<u>176,565</u>
Total Liabilities and Fund Equity	<u>\$ 60,334</u>	<u>\$ 76,188</u>	<u>\$ 45,043</u>	<u>\$ 181,565</u>

Reconciliation to the Statement of Net Position

Total Fund equity reported above	\$ 176,565
Less Liabilities not reported above:	
Other Post-Employment Benefits	(74,093)
Compensated Absences	(7,576)
Net Position	<u>\$ 94,896</u>

See notes to the financial statements.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Retirement Fund	Miscellaneous Programs Fund	Total Governmental Funds
Revenues				
Interest Earnings	\$ 840	\$ 467	\$ 262	\$ 1,569
County Sources	-	29,538	-	29,538
State Sources	104,150	-	3,010	107,160
Federal Sources	-	-	193,220	193,220
Other Intergovernmental Revenue	171,091	13,918	-	185,009
Total Revenues	276,081	43,923	196,492	516,496
Expenditures				
Current:				
Instruction:				
Special Programs	-	-	193,220	193,220
Supporting Services:				
Student	278,532	-	5,000	283,532
School Administration	14,519	-	-	14,519
Business	14,089	-	-	14,089
Retirement	-	33,781	-	33,781
Total Expenditures	307,140	33,781	198,220	539,141
Net Change in Fund Balance	(31,059)	10,142	(1,728)	(22,645)
Fund Balance, Beginning of Year	86,393	66,046	46,771	199,210
Fund Balance, End of Year	\$ 55,334	\$ 76,188	\$ 45,043	\$ 176,565

Reconciliation to the Statement of Activities

Changes in fund balances as reported above	\$ (22,645)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, these expenditures are measured by the amount of financial resources used. This year, vacation and sick leave earned exceeded the amount used.	(981)
In governmental funds, other post-employment health benefits are reported at the time of payment. However, in the statement of activities, these expenditures are recorded as they are accrued. The liability for other post-employment health benefits increased by this amount this year.	(31,365)
Change in net position on the statement of activities	\$ (54,991)

See notes to the financial statements.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sheridan Daniels Special Education Cooperative delivers special education services to schools belonging to the cooperative. The Cooperative consists of four member schools consisting of Scobey, Westby, Medicine Lake, and Plentywood. The governing body of the Cooperative is a Board consisting of one representative from each of the member schools. Each representative is appointed or elected by their school district.

As defined by generally accepted accounting principles, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present only Sheridan Daniels Special Education Cooperative, as they have no component units that would be included in the financial data of the Cooperative.

Plentywood School District No. 20 provides substantial services to Sheridan Daniels Special Education Cooperative. Cash records are maintained by Plentywood School District No. 20. They also pay any bills incurred through the Interlocal Agreement Fund. Each school is responsible for expending its share of the grant funds and is reimbursed by the Cooperative.

Sheridan County also provides substantial services to Sheridan Daniels Special Education Cooperative. Through the accounts of Plentywood School District No. 20, cash is maintained and invested, and revenue is collected by the County Treasurer. Yet, the cooperative is not considered to be a component of either the School or the County. Management policies and day-to-day control of the Cooperative is the sole responsibility of the Cooperative governing board. Plentywood School District No. 20 and Sheridan County do not significantly influence the operations of the Cooperative; thus, the Cooperative is being treated as a separate and independent unit of local government.

Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the Cooperative. These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Cooperative are generally financed through federal and state grants and transfers from the member schools. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis revenue from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function. The cooperative does not charge indirect expenses to programs or functions. Program revenues include fees for services and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenue are presented as general revenues.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Basis of Accounting (Continued)

Fund Financial Statements - These statements provide information about the cooperative's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as non-major funds. All of the cooperative's funds are considered major funds.

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days after year-end are recognized as revenue. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the Cooperative's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the Cooperative applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenue.

GASB Statement No. 34 requires that the general fund be reported as a major fund and that all other governmental funds whose assets, liabilities, revenues or expenditures exceed 10% or more of the total for all governmental funds also be reported as major funds. Accordingly the Cooperative reports the following major governmental funds:

General Fund - the Cooperative's primary operating fund which accounts for all financial resources of the Cooperative except those required to be accounted for in other funds.

Retirement Fund - accounts for the employer's contribution to the Teachers' Retirement System, the Public Employees' Retirement System, Unemployment Compensation, and Social Security.

Miscellaneous Programs Fund - accounts for grants of state or federal monies other than monies designated for deposit in a specific fund.

Capital Assets: Capital assets which includes plant, property, equipment and infrastructure assets, with a cost of \$5,000 or more and a useful life of three years or more are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure assets are also capitalized. Depreciation is computed using the straight-line method. The Cooperative does not have any assets that meet the definition of a capital asset.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Warrants Payable: The Cooperative makes expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. Outstanding warrants are recorded as disbursements in individual funds and cash balances in individual funds are reduced for outstanding warrants.

Inventories: Inventories are recorded as expenditures at the time of purchase. The Cooperative does not record inventories in their financial statements.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Encumbrances outstanding at year end are reported as assigned fund balances since they do not constitute expenditures or liabilities.

Compensated Absences: Liabilities incurred because of accumulated unused vacation and sick pay which is payable upon termination is included in the financial statements. The liability for vacation pay is recorded as a current liability payable within one year in the government-wide financial statements. The liability for unused sick leave is recorded as a non-current liability.

Fund Equity: In governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in the following classifications which reflect the extent to which the Cooperative is bound to honor constraints on the purposes for which the amounts can be spent: nonspendable, restricted, committed, assigned and unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Deposits as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Invested with Sheridan County Investment Pool	<u>\$ 179,153</u>

Cash and investments are held by the County Treasurer of Sheridan County. Cash and investments may include cash and cash items; time and savings deposits; direct obligations of the U.S. Government; investments in the Montana Short-Term Investment Pool (S.T.I.P.); repurchase agreements; and registered warrants.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Sheridan County government is considered to have \$250,000 FDIC coverage in each bank in the state.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Sheridan County Investment Pool).

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Sheridan County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The policy of the Cooperative contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of total Cooperative investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates.

Information about the sensitivity of the fair value of the Cooperative's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Sheridan County Investment Pool	<u>\$ 179,153</u>	<u>Maturity Date</u> 1 year average
---------------------------------	-------------------	--

Investment in the Sheridan County Investment Pool

The Cooperative participates in the Sheridan County Investment Pool. The information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Sheridan County Treasurer, who reports to the Sheridan County Commissioners. The pool unit is fixed at \$1 per share for purchases and redemptions.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Investment in the Sheridan County Investment Pool (Continued)

The County Investment Pool has money invested in the State Short-Term Investment Pool which included asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as market risk for similar securities not backed by assets. Variable-rate securities have credit risk identical to similar fixed-rate securities. The related market risk is more sensitive to changes in the interest rate. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported they were not aware of any legal risks associated with any of the STIP investments as of June 30, 2014.

NOTE C - RETIREMENT PLANS

The Cooperative participates in two, state-wide, cost-sharing, multiple employer defined benefit retirement plans which cover all employees, except part-time, non teaching employees. The Teacher's Retirement System (TRS) covers certified teaching employees and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by state law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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 P.O. Box 200139 1500 Sixth Avenue Helena, MT 59620-0139 Telephone: 406-444-3134	Public Employee Retirement System P.O. Box 200131 1712 Ninth Avenue Helena, MT 59620-0131 Telephone: 406-444-3154
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Contribution rates, expressed as a percentage of covered payroll, which are required and determined by State Law, were as follows on June 30, 2014:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	8.47%	8.15%	16.62%
PERS	7.80%	7.90%	15.70%

For the year ended June 30, 2014, the State of Montana contributed .1% of the employees' payroll for PERS and 2.49% for TRS. These are considered on-behalf payments. The Cooperative does not record these contributions in their financial statements as required by generally accepted accounting principles.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE C - RETIREMENT PLANS (CONTINUED)

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

	2014	2013	2012
TRS	\$ 31,046	\$ 22,515	\$ 18,759
PERS	2,236	1,816	1,676
Total	\$ 33,282	\$ 24,331	\$ 20,435

NOTE D - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represents vacation and sick leave earned by employees which is payable upon termination, were as follows for June 30, 2014:

	Balance 6-30-13	Increase (Decrease)	Balance 6-30-14
Vacation and Sick Leave	\$ 6,595	\$ 981	\$ 7,576

Compensated absences are liquidated out of the same governmental funds used to pay each individual employee's salary.

NOTE E - RESOURCES TRANSFERRED TO AND FROM OTHER DISTRICTS

The following transfers were made to and from other districts for the year ended June 30, 2014:

	Transfer In	Transfer Out
General	\$ 171,091	\$ -
Retirement	13,918	-
Miscellaneous Programs	-	193,220
Total	\$ 185,009	\$ 193,220

The Transfers In were as follows:

Cooperative share of budget from all the cooperative members	\$ 171,091
Cooperative share of unfunded benefits from all the cooperative members	13,918
Total Transfers In	\$ 185,009

The Transfers Out were as follows:

Cooperative members' shares of Idea Part B	\$ 188,205
Cooperative members' shares of Idea Part B	5,015
Pre-School Grant	-
Total Transfers Out	\$ 193,220

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE F - RISK MANAGEMENT

The Cooperative faces a considerable number of risks of loss, including a) damage to and loss of property, b) employee torts, c) professional liability, i.e. errors and omissions, d) workers' compensation, i.e. employee injuries, and e) medical insurance costs of employees. 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 damage, employee medical costs and professional liabilities. The Cooperative participates in one state-wide public risk pool operated by the Workers' Compensation Risk Retention Program for workers' compensation coverage.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The premiums for property and content damage and professional liability are paid from the Cooperative's General Fund. The premiums for the employee medical plan are allocated based on salaries paid. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

In 2006, the Cooperative joined together with other Montana schools and became a member of the Montana Schools Group Insurance Authority. This is a public entity risk pool which offers workers' compensation coverage under the Workers' Compensation Risk Retention Program. The pool currently operates as a common risk management and insurance program for member schools.

The program offers medical benefits, partial and total disability benefits, death benefits, and rehabilitation benefits. The Cooperative pays an annual premium for its employee injury insurance coverage, which is allocated to the Cooperative's funds based on total budgeted salaries and wages. The agreement for the formation of the pool provides that it will be self-sustaining through the member premiums.

NOTE G - SUBSEQUENT EVENTS

The Cooperative recognizes all effects of subsequent events that provide additional evidence about conditions that existed as of June 30, 2014, including the estimates inherent in the process of preparing financial statements. Subsequent events that provide evidence about conditions that did not exist as of June 30, 2014, but arose after that date and prior to issuance are not recognized in these financial statements other than disclosure. There were no subsequent events that are required to be disclosed as of June 30, 2014. The cooperative evaluated the subsequent events through the date of the auditor's report.

NOTE H - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Cooperative reported the "implicit rate subsidy" liability as required by GASB statement No. 45 for the first time in fiscal year 2010. The Cooperative provides employees who retire and their spouses and dependents the option to continue to participate in the Cooperative's group health insurance plan. To continue coverage, retirees are required to pay the full cost of the benefits. The Cooperative is not required to offer insurance at the same rate as all participants. Furthermore, there are no other legal or contractual agreements requiring the Cooperative to offer the same rates to retirees as other participants. Rates can be changed or benefits altered at any time to ensure all plans are fiscally sound.

Plan description - The Cooperative provides employee medical, dental and vision insurance through a privately administered purchased plan.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE H - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Funding Policy - The Cooperative provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the health insurance premium. Eligible retired employees include former fulltime and certain other employees. At June 30, 2014 the Cooperative had no retirees.

Annual OPEB Cost Obligation - The Cooperative's other post employment benefit (OPEB) cost (expense) is calculated using the alternative measurement method, and is based on the projected unit credit cost method as of June 30, 2014. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

Annual required contribution	\$ 31,056
Interest on net OPEB obligation	309
Annual OPEB cost (expense)	31,365
Contributions made	-
Increase in net OPEB obligation	31,365
Net OPEB obligation beginning of year	42,728
Net OPEB obligation end of year	\$ 74,093

The Cooperative's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 6,160	0.00%	\$ 15,812
2013	\$ 26,916	0.00%	\$ 42,728
2014	\$ 31,365	0.00%	\$ 74,093

Funded Status and Funding Progress - As of June 30, 2014 the actuarial accrued liability for benefits was \$93,477, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$94,766, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 98.64%.

Actuarial Methods and Assumptions - Projection of benefits for financial reporting purposes are based on the substantive plan and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. The following assumptions were made:

Mortality is assumed to follow the mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and Females were used.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Interest and Discount rates used were at 4% and the payroll growth inflation rate was 2%.

Marital status of members at the time of calculation date are assumed to remain unchanged.

Health cost trend rate was expected to have an increase in healthcare insurance premiums of 3% annually on average over the next 10 years.

Additional information derived from this actuarial valuation follows:

Actuarial cost method: Simplified version of the entry age actuarial cost method
Amortization Method: Level percent of pay on an open basis for 25 years
Retirement age for active employees was assumed to be age 60

NOTE I - GOVERNMENTAL FUND BALANCES

The Cooperative's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

Nonspendable - Balances that either are not in spendable form or are legally or contractually required to remain intact.

Restricted - Balances that are restricted for specific purposes by the constitution, enabling governing body or external resource providers such as creditors, grantors, or laws or regulations of other governments.

Committed - Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Cooperative board of trustees.

Assigned - Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Residual balances that are not contained in the other classifications.

REQUIRED SUPPLEMENTARY INFORMATION

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	General Fund					Actual Amounts GAAP Basis
	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance From Final Budget	Budget to GAAP Differences Over (Under)	
	Original	Final				
Revenues						
Interest Earnings	\$ -	\$ -	\$ 840	\$ 840	\$ -	\$ 840
State Sources	113,483	113,483	104,150	(9,333)	-	104,150
Other Intergovernmental Revenue	171,091	171,091	171,091	-	-	171,091
Total Revenues	<u>284,574</u>	<u>284,574</u>	<u>276,081</u>	<u>(8,493)</u>	<u>-</u>	<u>276,081</u>
Expenditures						
Current:						
Supporting Services:						
Student	303,891	303,891	279,224	24,667	692	278,532
School Administration	15,475	15,475	14,519	956	-	14,519
Business	14,375	14,375	14,089	286	-	14,089
Total Expenditures	<u>333,741</u>	<u>333,741</u>	<u>307,832</u>	<u>25,909</u>	<u>692</u>	<u>307,140</u>
Net Change in Fund Balance	<u>\$ (49,167)</u>	<u>\$ (49,167)</u>	<u>(31,751)</u>	<u>\$ 17,416</u>	<u>\$ 692</u>	<u>(31,059)</u>
Fund Balance, Beginning of Year			84,530			86,393
Fund Balance, End of Year			<u>\$ 52,779</u>			<u>\$ 55,334</u>

Explanation of differences:

Encumbrances for equipment and supplies ordered but not received are reported in the year the orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes. Encumbrances that are not spent are recorded as miscellaneous revenue on the budgetary basis.

\$ 692

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

A budget is adopted for Sheridan Daniels Special Education Cooperative by the Cooperative governing board each fiscal year. This budget is based on the amount of funding to be received from the State Special Education Allowable Costs and funding from the member schools. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget is not required by state law, but is required by the grant agreements. A budget is not adopted for the Miscellaneous Programs Funds because it is not legally required, and therefore, presentation of budgetary comparison information is not required.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	Retirement Fund			
	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	Budgetary Basis	From Final Budget
Revenues				
Interest Earnings	\$ -	\$ -	\$ 467	\$ 467
County Sources	29,538	29,538	29,538	-
Other Intergovernmental Revenue	13,918	13,918	13,918	-
Total Revenues	<u>43,456</u>	<u>43,456</u>	<u>43,923</u>	<u>467</u>
Expenditures				
Current:				
Retirement	34,952	34,952	33,781	1,171
Total Expenditures	<u>34,952</u>	<u>34,952</u>	<u>33,781</u>	<u>1,171</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 8,504</u>	<u>\$ 8,504</u>	10,142	<u>\$ 1,638</u>
Fund Balance, Beginning of Year			<u>66,046</u>	
Fund Balance, End of Year			<u>\$ 76,188</u>	

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

A budget is adopted for Sheridan Daniels Special Education Cooperative by the Cooperative governing board each fiscal year. This budget is based on the amount of funding to be received from the State Special Education Allowable Costs and funding from the member schools. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget is not required by state law, but is required by the grant agreements. A budget is not adopted for the Miscellaneous Programs Funds because it is not legally required, and therefore, presentation of budgetary comparison information is not required.

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
 PLENTYWOOD, MONTANA
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS
 FOR THE YEAR ENDED JUNE 30, 2014

Actuarial Value Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Percentage	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ -	\$ 36,300	\$ 36,300	0.00%	\$ 94,766	38.30%
June 30, 2013	\$ -	\$ 65,874	\$ 65,874	0.00%	\$ 94,766	69.51%
June 30, 2014	\$ -	\$ 93,477	\$ 93,477	0.00%	\$ 94,766	98.64%

ADDITIONAL REPORTS



CHMS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

741 Third Avenue South
Glasgow, Montana 59230

406-228-9391

FAX: 406-228-2063

1-800-755-2467

E-MAIL: glasgow@chmspc.com

Richard A. Wiens, CPA
Doris M. Leader, CPA
Diana W. Mattfeldt, CPA

**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**

Board of Trustees
Sheridan Daniels Special Education Cooperative
Plentywood, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Sheridan Daniels Special Education Cooperative, Plentywood, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Sheridan Daniels Special Education Cooperative's basic financial statements, and have issued our report thereon dated July 30, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies 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 over financial reporting that we consider to be material weaknesses. However,

material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings as Finding #1, that we consider to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sheridan Daniels Special Education Cooperative's basic 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 result 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.

CHMS, P.C.

CHMS, P.C.
Certified Public Accountants
July 30, 2015

SHERIDAN DANIELS SPECIAL EDUCATION COOPERATIVE
PLENTYWOOD, MONTANA
SCHEDULE OF FINDINGS
JUNE 30, 2014

FINDING #1 - DEFICIENCIES IN THE INTERNAL CONTROL STRUCTURE DESIGN

Condition

There is an absence of segregation of duties appropriate of a strong system of internal control.

Criteria

Internal Controls should be in place segregating the functions of:

1. Authorizing,
2. Recording,
3. Custody of Assets,
4. and Reconciling.

Cause

The size of the entity prevents adequate segregation of duties.

Effect

A material misstatement in the financial statements due to error, abuse, or fraud may not be detected and corrected in a timely manner.

Recommendation

The Cooperative has implemented compensating controls to the extent practical, and we are not recommending further action by the Board of Trustees. We believe the Board should be aware that this condition results in a greater risk of errors occurring and not being identified within a timely period, than would be the case if duties were appropriately segregated.

Response

No response required.

STATUS OF PRIOR YEAR'S FINDINGS

Finding #1 Segregation of Duties

No Implementation Required