

STILLWATER/SWEET GRASS SPECIAL EDUCATION COOPERATIVE

**STILLWATER COUNTY
COLUMBUS, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

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Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

ORGANIZATION

BOARD OF TRUSTEES

Al Sipes	Chair
Jerry Thompson	Vice Chair
Mike Ehinger	Trustee
Pat Audet	Trustee
Mark Ketcham	Trustee
Susan Metcalf	Trustee
Dustin Strum	Trustee

OFFICIALS

Monica Pugh	Director
Roger Heimbigner	Coop Clerk
Judy Martin	County Superintendent
John Petak	County Attorney

STILLWATER/SWEET GRASS COOPERATIVE

PO BOX 669, 42 N. 4TH STREET

COLUMBUS, MT 59019

(406) 322-5298 FAX (406) 322-4506

MANAGEMENT DISCUSSIONS & ANALYSIS

Our discussion and analysis provides an overview of the government's financial activities for the year ended June 30, 2014. Please read it in conjunction with our financial strategies.

FINANCIAL HIGHLIGHTS

Net position decreased \$19,268. The decrease can be attributed to a decrease in the use of direct and related block grant carry-over monies as well as block grant increases, and Medicaid reimbursement funds.

During the year the cooperative had revenues of \$760,548 and expenses of \$779,249. Total net position decreased from \$315,773 to \$297,072. The government is using cash reserves especially Medicaid dollars to offset future costs not covered by state, local, or federal funds.

The net changes in fund balances were -\$614 which is not a significant change.

Expenditures increased by \$7,924 from the 2012-13 school year. Support service cost increased by \$115,217 with less staff which was offset by Instructional Services costs which decreased by \$104,393. Depreciation costs were increased by \$12,566 in 2013-14.

USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the government as a whole and present a longer-term view of the finances. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 7 and 8) report information about the district as a whole and about our 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 accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net position and changes in them. You can think of net position—the difference between assets and liabilities—as one way to measure the district's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the property tax base, economy, enrollment and changes in the State's funding of educational costs to assess the overall health.

Fund financial statements The fund financial statements) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic

services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations (pages 10 and 12, respectively).

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the cooperative, assets exceeded liabilities by \$297,072 as of June 30, 2014. The government's net position are available for future spending. The decrease in net position can be attributed to increased expenses in Medicaid using cash reserves from Medicaid to supplement revenue sources for spending. The retirement fund balance also increased by \$697 with less expenditures from the 2012-13 school year.

NET POSITION

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
Current Assets	307,325	307,939	(614)	-0.20%
Capital Assets, net	<u>12,502</u>	<u>25,068</u>	<u>(12,566)</u>	<u>-50.13%</u>
Total Assets	319,827	333,007	(13,180)	-3.96%
Current Liabilities	2,276	1,723	553	32.10%
Long Term Liabilities	<u>21,046</u>	<u>15,511</u>	<u>5,535</u>	<u>35.68%</u>
Total Liabilities	23,322	17,234	6,088	35.33%
Net Position:				
Net Investment in Capital Assets	12,502	25,068	(12,566)	-50.13%
Restricted	204,245	216,777	(12,532)	-5.78%
Unrestricted	<u>79,758</u>	<u>73,928</u>	<u>5,830</u>	<u>7.89%</u>
Total Net Position	296,505	315,773	(19,268)	-6.10%

CHANGES IN NET POSITION

Revenues

Program Revenues:

Charges for Services	30,287	58,360	(28,073)	-48.10%
Operating Grants	660,420	670,659	(10,239)	-1.53%

General Revenues:

Other State Revenue	32,808	21,972	10,836	49.32%
County	36,471	38,840	(2,369)	-6.10%
Investment Earnings	562	931	(369)	-39.63%
Other	<u>32,808</u>	<u>21,972</u>	<u>10,836</u>	<u>49.32%</u>
Total Revenues	760,548	816,991	(56,443)	-6.91%

Program Expenses

Instruction	47,499	151,325	(104,393)	-68.61%
Support	574,207	458,990	115,217	25.10%
Administration:	122,334	121,622	712	0.59%
O & M	35,776	39,388	(16,178)	-9.17%
Total Expenses	<u>779,249</u>	<u>771,325</u>	<u>7,924</u>	

Change in Net Position

	(19,268)	45,666		
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As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, net position decreased \$45,666.

Current assets decreased \$614 because of a decrease in the cash reserve position. Long-term liabilities increased \$4,968 mainly due to the increased liability of licensed staff payouts. Low turnover and higher salaries attributed to increased liability for payouts.

Total revenues decreased from the 2012-13 school year to the 2013-14 school year due to more reserves being used toward expenditures. Total expenditures increased slightly by \$7,924 at the same time. Overall expenses increased by 1.03%. Most of the increase was due to increased depreciation.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the major (most significant) funds. 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 total (assets, liabilities, etc.) for all funds. The General fund (Interlocal Fund) is always reported as a major fund.

Interlocal fund fund balance increased by \$11,918. This increase was due to an increase in resources transferred from other districts in the 2013-14 school year. Misc. Fed Fund balances decreased by \$13,229 over the same period. Net fund balance for the year decreased by \$614.

CAPITAL ASSET AND DEBT ADMINISTRATION

Currently there are no capital leases outstanding in the District. The remaining liabilities of the district are compensated absences and termination benefits.

THE GOVERNMENT'S FUTURE

Federal Grants, IDEA Part B and Pre-school monies provide 59% of the government's budget with 28% from state and 13% local resources. The ability of the government to meet the needs of its member districts is dependent on the future finding of state, federal and local revenues. In the short-term the government is hoping to keep the local match required by the State at its current level of 33.3% of the related service block grant, and the direct service block grant with a 33.3% match from the rural schools. The Coop is dependent on the larger member districts Columbus and Big Timber remaining a part of the Coop. If one of these two schools left the Coop, the services provided would change significantly.

In the long-term, the government will monitor the funding from State and Federal resources. If these funds begin to diminish, then reallocated funds and contingency monies passed through to the district will be reduced or discontinued. These reduced revenue sources may lead to reduced services or require more local funding and use Medicaid general funds (excluding those set aside for compensated absences) to maintain the services delivery model currently in place for member districts. Funding is monitored on a yearly basis with an emphasis on maintaining the government as a whole. The Coop will start using reserves to help balance the budget in the 2014-15 school year. The Coop will monitor the impact of using reserves each year (\$50,000) to determine if fund balances are at an appropriate level to operate each year. A reduction of services may be needed in the next 2-3 years or an increase in revenues to balance the budget.

The government is comprised of 11 school districts that have signed 3 year letters of commitment, which is ongoing. To terminate a membership from the government the member district is required to file a letter with the Management Council before October 10, of the school year. This process takes 3 years, which allows the government to plan for the future with remaining members.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Stillwater/Sweet Grass Cooperative as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Stillwater/Sweet Grass Cooperative 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 (pages 3 - 5) and the schedule of funding for other post-employment benefits other than pensions (page 21) 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 on our consideration of Stillwater/Sweet Grass Cooperative 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 Stillwater/Sweet Grass Cooperative internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
February 27, 2015

STATEMENT OF NET POSITION
as of June 30, 2014

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 307,325
Total Current Assets	307,325
Noncurrent Assets:	
Capital Assets:	
Net Depreciable Assets	12,502
Total Noncurrent Assets	12,502
Total Assets	\$ 319,827
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	\$ 2,276
Total Current Liabilities	2,276
Noncurrent Liabilities:	
Long-Term Obligations	567
Compensated Absences	20,479
Total Noncurrent Liabilities	21,046
Total Liabilities	23,322
NET POSITION:	
Net investment in capital assets	12,502
Restricted	204,245
Unrestricted (Deficit)	79,758
Total Net Position	296,505
Total Liabilities and Net Position	\$ 319,827

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

Stillwater/Sweet Grass Cooperative
 Stillwater County
 Columbus, Montana 59019

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
				Governmental Activities
GOVERNMENT OPERATIONS				
Instructional Services	\$ 47,499	\$ 30,287	\$ 19,586	\$ 2,374
Support Services	574,207	-	607,371	33,164
General Administrative Services	122,334	-	18,740	(103,594)
Operation & Maintenance Services	35,776	-	14,723	(21,053)
Total Governmental Activities	<u>779,816</u>	<u>30,287</u>	<u>660,420</u>	<u>(89,109)</u>
GENERAL REVENUES				
County				36,471
Interest				562
Other				<u>32,808</u>
Total General Revenues				<u>69,841</u>
Change in Net Position				(19,268)
Net Position				
Beginning of the Year				<u>315,773</u>
End of the Year				<u>\$ 296,505</u>

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

Stillwater/Sweet Grass Cooperative
 Stillwater County
 Columbus, Montana 59019

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	MAJOR			Total Governmental Funds
	General	Retirement	Miscellaneous Programs	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 103,080	\$ 20,073	\$ 184,172	\$ 307,325
Receivable From Other Funds	-	5,814	-	5,814
Total Assets	\$ 103,080	\$ 25,887	\$ 184,172	\$ 313,139
LIABILITIES:				
Current Liabilities				
Payable to Other Funds	-	-	5,814	5,814
Total Liabilities	-	-	5,814	5,814
FUND BALANCE:				
Fund Balances:				
Restricted	-	25,887	178,358	204,245
Unassigned:	103,080	-	-	103,080
Total Fund Balance	103,080	25,887	178,358	307,325
Total Liabilities and Fund Balance	\$ 103,080	\$ 25,887	\$ 184,172	\$ 313,139

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 307,325
Governmental Capital Assets	12,502
Long-term Liabilities	
Compensated Absences	(22,755)
Net Position of Governmental Activities	\$ 297,072

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

Stillwater/Sweet Grass Cooperative
 Stillwater County
 Columbus, Montana 59019

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

	MAJOR			Total Governmental Funds
	General	Retirement	Miscellaneous Programs	
REVENUES:				
Interest	\$ 257	\$ -	\$ 305	\$ 562
Charges for Services	30,287	-	-	30,287
Other	19,397	-	13,411	32,808
County	-	36,471	-	36,471
State	209,993	-	17,379	227,372
Federal	-	-	433,048	433,048
Total Revenues	<u>259,934</u>	<u>36,471</u>	<u>464,143</u>	<u>760,548</u>
EXPENDITURES:				
Current				
Instructional Services	23,963	3,224	19,745	46,932
Support Services	147,290	20,490	400,906	568,686
General Administrative Services	76,763	12,060	33,511	122,334
Operation & Maintenance Services	-	-	23,210	23,210
Total Expenditures	<u>248,016</u>	<u>35,774</u>	<u>477,372</u>	<u>761,162</u>
NET CHANGES IN FUND BALANCES	<u>11,918</u>	<u>697</u>	<u>(13,229)</u>	<u>(614)</u>
FUND BALANCE:				
Beginning of the Year	91,162	25,190	191,587	307,939
End of the Year	<u>\$ 103,080</u>	<u>\$ 25,887</u>	<u>\$ 178,358</u>	<u>\$ 307,325</u>

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

Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

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	\$	(614)
Expenses on the Statement of Activity not included in the governmental funds statement:		
Depreciation Expense	(12,566)	
(Increase) decrease in Other Post Employment Benefits	(567)	
(Increase) decrease in compensated absence liability	<u>(5,521)</u>	<u>(18,654)</u>
Change in net position reported on the Statement of Activity	\$	<u>(19,268)</u>

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

Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 10,161
Total Assets	<u>10,161</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	<u>10,161</u>
Total Liabilities	<u>10,161</u>
NET POSITION:	
Total Net Position	<u>\$ -</u>

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

STILLWATER/SWEET GRASS COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Stillwater/Sweet Grass Cooperative (Cooperative) 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 Cooperative applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the Cooperative adopted the following

- 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 year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the Cooperative.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 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 Cooperative has not extend 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 Cooperative assessment of effects to the financial statements.

- 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 Cooperative to expand its pension foot note disclosures. The Cooperative 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 year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Cooperative is not merging with another Cooperative 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 Cooperative plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The Cooperative was formed by the school districts of several counties to assist in administering the school districts special education programs. It is separated and apart from these school districts for financial reporting purposes. Some member of the seven member governing board represent all of the school districts of Cooperative. The Cooperative manages its own operations, personnel, and financial activity.

The criteria for including organizations as component units within the Cooperative'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 Cooperative'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 Cooperative. Based on those criteria this Cooperative 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. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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.

STILLWATER/SWEET GRASS COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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 member fees and
- Operating grants that are restricted to a particular functional program.

Investment earnings, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All Cooperative governmental funds are reported as major funds.

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 statements 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 membership fees. Membership fees 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

Agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures of that individual governmental are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental).

In addition to funds that meet the major fund criteria, any other governmental that government officials believe is particularly important to financial statement users may be reported as a major fund. The Cooperative reports all three of its funds as major funds.

The Cooperative reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the Cooperative and accounts for all revenues and expenditures of the Cooperative not encompassed within other funds. All general tax 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.
- Retirement Fund – This fund is used to account for financing the employer's contribution to the Teachers' Retirement System (TRS), Unemployment Compensation, Social Security and Medicare benefits for Cooperative 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 Cooperative programs are deposited in this fund.

STILLWATER/SWEET GRASS COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

1. b. 3 OTHER FUND TYPES

Agency Funds – Account for assets that the Cooperative holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. 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 Stillwater 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 and supplies inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 3 CAPITAL ASSETS

The Cooperative's property, plant and equipment 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 Cooperative 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. Land and construction in progress are not depreciated. Depreciation on the other 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:

<u>Capital Asset Classes</u>	<u>Lives</u>
Machinery and Equipment	5 years

1.c. 4 VACATION AND SICK LEAVE

Cooperative employees accumulate sick leave for later use or for payment upon termination, death, or retirement. Cooperative employees earn sick leave at the rate of one day per month. After eight years of consecutive employment employees are eligible for a payout of sick leave at the rate of 25% of accumulated sick leave up to 75 days. Any amount over 75 days accumulation will be paid at the end of each year at the daily rate of pay.

Liabilities incurred because of unused 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 \$2,276 and it is generally paid out of the general fund.

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.

STILLWATER/SWEET GRASS COOPERATIVE
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 Fiscal Year-Ended June 30, 2014

- 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, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>
Third Party Grantor Restrictions	\$ 178,358
Employer Retirement Benefits	<u>25,887</u>
Total	<u>\$ 204,245</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Cooperative considers restricted funds to have been spent first.

1. d. OTHER

1.d. 1 COUNTY PROVIDED SERVICES

The Cooperative is provided various financial services by Stillwater County. The Stillwater County also serves as cashier and treasurer for the Cooperative for tax and assessment collections and other revenues received by the Stillwater County which are subject to distribution to the various taxing jurisdictions located in the Stillwater County. The collections made by the Stillwater County on behalf of the Cooperative are accounted for in an agency fund in the Cooperative's name and are periodically remitted to the Cooperative by the Stillwater County Treasurer. No service charges have been recorded by the Cooperative or the Stillwater County.

1.e 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, 2014, 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>307,325</u>	\$ <u>10,161</u>	\$ <u>317,486</u>

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

	<u>Amount</u>
County Investment Pool	\$ <u>317,486</u>

Cash resources of the Cooperative are held and managed by the Stillwater County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Stillwater County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of U.S. treasury bonds, certificates of deposit, repurchase agreements, and STIP and are carried at fair value. The Cooperative's exposure to credit risk is not available to the Cooperative. Risk in the event of loss is unclear in state law, but appears to be the liability of the Stillwater County government. Because of the custodial involvement of the Stillwater County government, and the commingling of cash in County deposits in the name of the Stillwater County Treasurer, full risk classifications according to GASB 40 are available in the Stillwater County's annual report. There is no known maturity and credit rating of the Stillwater County Investment Pool.

STILLWATER/SWEET GRASS COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

NOTE 3. DUE FROM OTHER FUNDS

<u>Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Retirement *	\$ <u>5,814</u>	Miscellaneous*	Deposit made to incorrect fund.

* Denotes Major Funds

NOTE 4. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

4. a. 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/ Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Depreciable:</u>					
Major Equipment	\$ <u>71,830</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>71,830</u>
<u>Accumulated Depreciation:</u>					
Major Equipment	\$ <u>(46,762)</u>	\$ <u>(12,566)</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(59,328)</u>
Net Depreciable Assets	<u>25,068</u>	<u>(12,566)</u>	<u>0</u>	<u>0</u>	<u>12,502</u>
Net Governmental Capital Assets	\$ <u>25,068</u>	\$ <u>(12,566)</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>12,502</u>

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

<u>Function</u>	<u>Amount</u>
Operation & Maintenance	\$ <u>12,566</u>

NOTE 5. CHANGES IN LONG-TERM DEBT

5. a. 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>Principal</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	\$ <u>17,234</u>	\$ <u>5,521</u>	\$ <u>0</u>	\$ <u>22,755</u>	\$ <u>2,276</u>
Other Post-Employment Benefits (OPEB)	<u>0</u>	<u>567</u>	<u>0</u>	<u>567</u>	<u>0</u>
Total Other Liabilities	\$ <u>17,234</u>	\$ <u>6,088</u>	\$ <u>0</u>	\$ <u>23,322</u>	\$ <u>2,276</u>
Total Governmental Activities - Long-Term Debt:	\$ <u>17,234</u>	\$ <u>6,088</u>	\$ <u>0</u>	\$ <u>23,322</u>	\$ <u>2,276</u>

NOTE 6. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Cooperative provides the same health care plan to all of its members. The implicit subsidy is \$8,040 per member. The Cooperative 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 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:

STILLWATER/SWEET GRASS COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Actuarial Accrued Liability (AAL)	\$	2,673
Actuarial value of plan assets		<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)		<u>2,673</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	442,527
UAAL as a percentage of covered payroll		.6%

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)	\$	567
Interest on net OPEB obligation		0
Adjustment to ARC		<u>0</u>
Annual OPEB cost (expense)		567
Contribution made		<u>0</u>
Increase in net OPEB obligation		567
Net OPEB obligation - beginning of year		<u>0</u>
Net OPEB obligation - end of year	\$	<u>567</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)	66.2
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 and after	5.7%

NOTE 7. 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's employees are covered by the Montana State Compensation Insurance fund for workers' compensation. The Cooperative has no coverage for potential losses from environmental damages.

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 8. EMPLOYEE RETIREMENT SYSTEM

The Cooperative participates in a state-wide, cost-sharing multiple employer defined benefit retirement plan which cover all Cooperative employees, except certain part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The plan is established under State law and is administered by the State of Montana.

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

STILLWATER/SWEET GRASS COOPERATIVE
NOTES TO THE FINANCIAL STATEMENTS (continued)
Fiscal Year-Ended June 30, 2014

Teachers Retirement System
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: 406-444-3134
www.trs.doa.state.mt.us

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 Cooperative'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, Cooperative 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	\$ <u>70,638</u>	\$ <u>72,243</u>	\$ <u>84,467</u>

STILLWATER/SWEET GRASS COOPERATIVE
 SCHEDULE OF FUNDING PROGRESS
 Other Post-Employment Benefits Other Than Pensions (OPEB)
 Fiscal Year-Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
7/1/2013	\$ 0	\$ 2,673	\$ 2,673	\$ 0	\$ 442,527	0.6%

This schedule is based on the actuarial values as of July 1, 2013. Information for prior years is not 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
Stillwater/Sweet Grass Cooperative
Stillwater County
Columbus, Montana 59019

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 Stillwater/Sweet Grass Cooperative as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Stillwater/Sweet Grass Cooperative's basic financial statements and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Stillwater/Sweet Grass 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
February 27, 2015

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

SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report.