

**YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
YELLOWSTONE COUNTY
LAUREL, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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TABLE OF CONTENTS

	<u>Page No.</u>
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion & Analysis	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Net Position - Fiduciary Fund	13
Notes to Basic Financial Statements.....	14
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress-Other Post Employment Benefits	20
OTHER SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	21
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	22
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 <i>GOVERNMENT AUDITING STANDARDS</i>	23
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS	29

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE

ORGANIZATION

June 30, 2014

MANAGEMENT BOARD

Jerry Scott	Chairman
Bill Laurent	Vice-Chairman
Cathi Rude	Member
Jeff Bermes	Member
Bill Phillips	Member
Justin Klebe	Member
Tim Bronk	Member

OFFICIALS

Karen Underwood	Executive Director
Roger Heimbigner	Clerk

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Management Board
Yellowstone-West/Carbon County
Special Services Cooperative
Laurel, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellowstone-West/Carbon County Special Services Cooperative, Laurel, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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, each major fund, and the aggregate remaining fund information of the government, 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 and the schedule of funding progress—other post employment benefits identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'ness & Associates, PC

Billings, Montana
November 6, 2014

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the Yellowstone-West/Carbon County Special Services Cooperative financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes which begin on page 7.

FINANCIAL HIGHLIGHTS

- Net position increased \$176,382. The increase is due to an increase in Medicaid reimbursements and unspent member schools' preschool contributions.
- During the year, the government had expenses that were \$1,775,889 more than the \$85,909 in general revenues.
- Fund balances increased \$162,612 over the prior year – the government continues to receive Medicaid and member school preschool revenues which are greater than the expenditures being paid out of these funds, creating a higher fund balance.
- Federal revenues increased over the prior year due the increase in IDEA funding levels.

USING THIS AUDIT REPORT

This annual report consists of a series of financial statements. The government-wide financial statements provide information about the activities of the government as a whole and present a longer-term view of the finances. Governmental fund financial 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 government 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 report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the 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 net position and changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the government's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the economy, special education student counts 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 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.

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.

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
MANAGEMENT'S DISCUSSION & ANALYSIS

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 our case, assets exceeded liabilities by \$1,022,783 as of June 30, 2014. \$110,006 of the government's net position reflects its net investment in capital assets. The government uses these capital assets to provide services to its member schools. \$14,612 of the government's net position is restricted for employee benefits. The remaining portion of the government's net position (\$898,165) is available for future spending. The increase in net position resulted from billing Medicaid and member schools for the services the government provides. Following are schedules of net position and changes in net position:

NET POSITION:

	2014	2013	Change
Current and other assets	\$ 1,080,603	\$ 917,991	\$ 162,612
Capital assets	110,006	97,077	12,929
Total assets	1,190,609	1,015,068	175,541
Long-term liabilities	167,826	168,667	(841)
Total liabilities	167,826	168,667	(841)
Net position:			
Net investment in capital assets	110,006	97,077	12,929
Restricted	14,612	17,648	(3,036)
Unrestricted	898,165	731,676	166,489
	\$ 1,022,783	\$ 846,401	\$ 176,382

CHANGES IN NET POSITION:

	2014	2013	Change
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 1,952,271	\$ 1,827,849	\$ 124,422
General revenues:			
County sources	68,109	63,607	4,502
Interest	4,022	2,704	1,318
Miscellaneous	13,778	22,342	(8,564)
Gain on disposal of capital assets	-	9,398	(9,398)
Total revenues	2,038,180	1,925,900	112,280
Expenses:			
Instruction	105,497	101,450	4,047
Support services-students	1,342,456	1,274,454	68,002
Support services-general administration	787	-	787
Support services-administration	194,739	227,501	(32,762)
Support services-business	132,025	123,423	8,602
Operation and maintenance	28,570	22,665	5,905
Intergovernmental	57,724	60,687	(2,963)
Total expenses	1,861,798	1,810,180	51,618
Change in net position	176,382	115,720	60,662
Net position, beginning	846,401	679,731	166,670
Prior period adjustment	-	50,950	(50,950)
Net position, ending	\$ 1,022,783	\$ 846,401	\$ 176,382

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
MANAGEMENT'S DISCUSSION & ANALYSIS

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 is always reported as a major fund.

General fund fund balance increased \$18,507. The increase was due to continuation of a series of cost saving measures implemented in the prior year. Because of the manner in which the government is currently funded and due to maintenance of effort requirements, General fund fund balance will not increase or decrease significantly in any given year.

Miscellaneous programs fund fund balance increased \$147,141 as a result of the Medicaid and local preschool contributions not being spent.

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, the government purchased two vehicles for \$33,549. The government's only debt is compensated absences and the other post employment benefits liability.

THE GOVERNMENT'S FUTURE

Federal grant monies make up over 64% of the Cooperative's budget, state special education money accounts for 26%, with the remaining 10% coming from local sources. The ability of the Cooperative to effectively meet the needs of the member districts is dependent on the future funding of state and federal revenues. In the short term, the Cooperative will be able to minimize the amount of local money that member districts will have to pay for the support services offered by the Cooperative. Contingency money is still available for unanticipated special education budget needs, but is limited to \$7,500 requests up to \$100,000 total for the 2014-15 school year.

In the long-term, the Cooperative needs to monitor the funding from federal and state sources. If these sources start to diminish, over the long-term, then contingency monies passed through to districts will either be scaled back or discontinued. These reduced revenue sources may lead to reduced services provided by the Cooperative. Revenue sources from the federal sources and state sources are starting to level off. The Cooperative will need to increase local contributions, utilize the Medicaid money that has been building up over the past 7 years, or decrease payments to school districts to balance budgets in the future if funding trends continue. Funding needs to be monitored on a yearly basis with an emphasis on maintaining effort for the Cooperative as a whole. The Director recommended and the Cooperative Board approved cuts of approximately \$250,000 in the spring of 2010 which has brought the level of expenditures in line with the funding projections over the next 3-5 years. Reserves are up from the 2010-11 school year because of these expenditure cuts. The Cooperative should be able to maintain current levels of services for the next 3-5 years if revenues coming in stay at their current levels. Reserves are available to help support the budgets if needed over that period of time.

The Cooperative is comprised of 19 school districts who currently have signed 3 year letters of commitment to the Cooperative. The Laurel School District and Red Lodge School District make up 50% of the enrollment and funding for the Cooperative. If either school district decides not to commit to the Cooperative in the future then the Cooperative would need to revisit its strategy for the remaining members.

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 1,080,603
Capital assets, net of accumulated depreciation	<u>110,006</u>
Total assets	<u>1,190,609</u>
LIABILITIES	
Long-term liabilities:	
Due within one year:	
Compensated absences	8,026
Due in more than one year:	
Compensated absences	72,234
Other post employment benefits	<u>87,566</u>
Total liabilities	<u>167,826</u>
NET POSITION	
Net investment in capital assets	110,006
Restricted for:	
Instruction	1,236
Support services:	
Students	9,989
School administration	1,353
Business services	2,034
Unrestricted	<u>898,165</u>
Total net position	<u>\$ 1,022,783</u>

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Instruction	\$ 105,497	\$ 282,173	\$ 176,676
Support services:			
Students	1,342,456	1,335,687	(6,769)
General administration	787	-	(787)
School administration	194,739	186,022	(8,717)
Business services	132,025	120,519	(11,506)
Operation and maintenance	28,570	27,870	(700)
Intergovernmental	57,724	-	(57,724)
Total	\$ 1,861,798	\$ 1,952,271	90,473
General revenues:			
Intergovernmental:			
County			68,109
Interest			4,022
Miscellaneous			13,778
			<u>85,909</u>
			Change in net position 176,382
			Net position - beginning <u>846,401</u>
			Net position - ending <u>\$ 1,022,783</u>

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Miscellaneous Programs	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 347,251	\$ 718,740	\$ 14,612	\$ 1,080,603
Total assets	\$ 347,251	\$ 718,740	\$ 14,612	\$ 1,080,603
FUND BALANCES				
Restricted for:				
Instruction	\$ -	\$ -	\$ 1,236	\$ 1,236
Support Services:				
Students	-	-	9,989	9,989
School administration	-	-	1,353	1,353
Business Services	-	-	2,034	2,034
Committed for:				
Support Services:				
Students	-	718,740	-	718,740
Unassigned	347,251	-	-	347,251
Total fund balances	\$ 347,251	\$ 718,740	\$ 14,612	\$ 1,080,603

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 1,080,603
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	110,006
Some liabilities are not due and payable in the current period and, therefore, are not included in the funds.	
Compensated absences	(80,260)
Other post employment benefits (OPEB)	<u>(87,566)</u>
Net position of governmental activities	<u>\$ 1,022,783</u>

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Miscellaneous Programs	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Intergovernmental:				
County	\$ -	\$ -	\$ 68,109	\$ 68,109
State other	522,527	133,717	-	656,244
Federal	-	1,178,597	-	1,178,597
Interest	4,022	-	-	4,022
Miscellaneous	96,267	34,941	-	131,208
Total revenues	622,816	1,347,255	68,109	2,038,180
EXPENDITURES				
Current:				
Instruction	45,942	52,424	6,019	104,385
Support services:				
Students	398,003	879,960	48,633	1,326,596
General administration	-	787	-	787
School administration	53,931	132,596	6,589	193,116
Business services	79,284	41,653	9,904	130,841
Operation and maintenance	-	28,570	-	28,570
Capital outlay	27,149	6,400	-	33,549
Intergovernmental	-	57,724	-	57,724
Total expenditures	604,309	1,200,114	71,145	1,875,568
Net change in fund balances	18,507	147,141	(3,036)	162,612
Fund balances - beginning	328,744	571,599	17,648	917,991
Fund balances - ending	\$ 347,251	\$ 718,740	\$ 14,612	\$ 1,080,603

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
 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 change in fund balances - total governmental funds	\$ 162,612
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
This is the amount by which capital outlay (\$33,549) exceeded depreciation (\$20,620) in the current period.	12,929
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	6,000
Other post employment benefits	<u>(5,159)</u>
Change in net position of governmental activities	<u><u>\$ 176,382</u></u>

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
STATEMENT OF NET POSITION
FIDUCIARY FUND
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 83,172</u>
Total assets	<u><u>\$ 83,172</u></u>
LIABILITIES	
Accounts payable	<u>\$ 83,172</u>
Total liabilities	<u><u>\$ 83,172</u></u>

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

The government is managed by a central Management Board, appointed by participating school districts, and by a central administration appointed by and responsible to the Board. The government serves the special education needs of the member school districts located in Yellowstone, Carbon, Stillwater and Big Horn Counties.

Yellowstone County provides substantial services to the government in the form of cash collections and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

The government is a separate statutory entity and it is managed and operated as a single primary government. These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue fund is reported as major.

The miscellaneous programs fund accounts for local, state or federal grants and reimbursements.

Additionally, the government reports the following fund types:

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

Cash and investments, except amounts in the flexible benefits fund, are held by the County Treasurer. The County Treasurer invests the District's cash at the direction of the government as required by state statute. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Capital Assets

Capital assets include machinery and equipment and are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation on capital assets is calculated on the straight-line basis over 5 to 8 years.

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Classified employees (non-teaching) earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under state statute to a maximum accumulation of two times the amount earned annually. Vacation leave is absorbed by time off from work, or, with certain limitations, may be payable to the employee upon termination.

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 10 days per year up to a cumulative maximum of 100 days. Upon retirement or resignation, classified and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount.

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

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

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

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk to assign fund balance. There was no assigned fund balance in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

As discussed in Note 1, the government's cash and investments, except amounts in the flexible benefits fund, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The flexible benefits fund bank balance was entirely insured by the FDIC.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in state law, but may be the liability of the County government. Custodial credit risk, interest rate risk and concentration of credit risk classifications of the government's deposits and pooled investments can be obtained from the Yellowstone County Treasurer.

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Machinery and equipment	\$ 182,874	\$ 33,549	\$ -	\$ 216,423
Less: accumulated depreciation	(85,797)	(20,620)	-	(106,417)
Total capital assets, net	\$ 97,077	\$ 12,929	\$ -	\$ 110,006

Depreciation expense of \$20,620 was all charged to support services-students.

Long-Term Debt

Compensated absences decreased by \$6,000 to \$80,260, with \$8,026 considered short-term. Compensated absences are generally liquidated by the general fund.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Economic Dependency

Approximately 90 percent of the Cooperative's revenues are derived from state and federal sources.

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Public Employees Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
TRS:			
Tier 1 member	8.470%	8.150%	16.620%
Tier 2 member	8.470%	8.150%	16.620%
PERS	7.800%	7.900%	15.700%

TRS:

A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana on-behalf TRS (\$28,321) contributions has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 207,610	\$ 166,075	\$ 150,034
PERS	9,657	18,981	16,743
	\$ 217,267	\$ 185,056	\$ 166,777

Postemployment Benefits Other Than Pensions

Plan Description. The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

Funding Policy. The required contribution is based on pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation. The government's' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the government's' annual OPEB cost for the year, the amount actually contributed to the plan, and the changes on the government's' net OPEB obligation to the postemployment benefit plan:

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
NOTES TO BASIC FINANCIAL STATEMENTS

Annual required contribution	\$ 24,076
Interest on net OPEB obligation	2,060
Adjustment to annual required contribution	<u>(20,977)</u>
Annual OPEB cost (expense)	5,159
Contributions made	<u>-</u>
Increase in net OPEB obligation	5,159
Net OPEB obligation - beginning of year	<u>82,407</u>
Net OPEB obligation - end of year	<u>\$ 87,566</u>

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2012	\$ 21,445	0%	\$ 73,199
2013	9,208	0%	82,407
2014	5,159	0%	87,566

Funded Status and Funding Progress. As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$213,202, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$213,202.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the July 1, 2012 actuarial valuation (the most recent valuation), the projected unit credit method was used. The actuarial assumptions included a 4.5% investment rate of return which is based on the expected long term investment return of the employer's own investments used to pay plan benefits and an annual healthcare cost trend rate of 10% reduced by decrements of .5% to an ultimate rate of 5%. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The amortization of UAAL is done over a period of 30 years.

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2014	\$ -	\$ 213,202	\$ 213,202	-	\$ 1,241,441	0.171737521
6/30/2013	-	182,535	182,535	-	1,213,861	0.150375537
6/30/2012	-	432,906	432,906	-	1,182,259	0.366168496

OTHER SUPPLEMENTARY INFORMATION

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Cluster/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures	Balance June 30, 2014
<u>U.S. Department of Education:</u>							
Passed through the Montana Office of Public Instruction:							
Special Education Cluster:							
Special Education - Grants to States	84.027	056-9707-7714	\$ 1,630,154	\$ -	\$ 1,137,519	\$ 1,137,519	\$ -
Subtotal				-	1,137,519	1,137,519	-
Special Education - Preschool Grants	84.173	056-9707-7914	60,828	-	41,078	41,078	-
Subtotal				-	41,078	41,078	-
Total Federal Awards				\$ -	\$ 1,178,597	\$ 1,178,597	\$ -

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the Cooperative's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to the Cooperative's member districts as subrecipient organizations. \$57,724 in expenditures (CFDA No. 84.027) incurred by the member districts were reimbursed by the Cooperative and included on the schedule as part of major program pass-through awards for the year ended June 30, 2014.

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL
AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION

FINDING 2013-3: Special Education Cluster

SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs

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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

To the Management Board
Yellowstone-West/Carbon County
Special Services Cooperative
Laurel, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Yellowstone-West/Carbon County Special Services Cooperative, Laurel, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2014-001 and 2014-002)

Compliance and Other Matters

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

The Government's Response to Findings

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

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 (CONTINUED)

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.

O'neal & Associates, PC

Billings, Montana
November 6, 2014

OLNESS & ASSOCIATES, P. C.

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

To the Management Board
Yellowstone-West/Carbon County
Special Services Cooperative
Laurel, Montana

Report on Compliance for Each Major Federal Program

We have audited Yellowstone-West/Carbon County Special Services Cooperative, Laurel, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2014. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a material weaknesses.

The government's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

O'neal & Associates, PC

Billings, Montana
November 6, 2014

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to the financial statements noted? yes no

FEDERAL AWARDS:

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

YELLOWSTONE-WEST/CARBON COUNTY
SPECIAL SERVICES COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

Client response: The Yellowstone West/Carbon County Special Services Cooperative doesn't have the resources in time or money to comply with sending a Coop representative to school on a periodic basis to keep up with the regulations required to prepare annual financial statements and notes to the financial statements. There is a significant cost involved in annual training and also significant time involved in preparing the annual financial statements and notes to the financial statements. The Coop believes the costs would outweigh the benefits of preparing the annual financial statements and notes to the financial statements.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Response: The Yellowstone West/Carbon County Special Services Cooperative has numerous compensating controls in place to help prevent mistakes or fraud. The Coop could always do more to segregate duties, but this would require additional personnel. The Coop believes the costs of the additional personnel would outweigh the benefits to provide perfect segregation of duties. Many steps have been recommended in the past by auditors and all those steps have been taken to ensure improved segregation of duties with our current personnel.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION:

2014-003. All Major Programs as Described in Section I-Summary of Auditor Results

Finding 2014-002 applies to these federal award programs.

YELLOWSTONE-WEST/CARBON COUNTY SPECIAL SERVICES COOPERATIVE
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE