

# **BLACK HILLS SPECIAL SERVICES COOPERATIVE**

INDEPENDENT AUDITOR'S REPORTS,  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013



RAPID CITY, SOUTH DAKOTA  
GILLETTE, WYOMING



**Black Hills Special Services Cooperative**  
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**June 30, 2013**

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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*

Board of Directors  
Black Hills Special Services Cooperative  
Sturgis, South Dakota

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 and general fund of Black Hills Special Services Cooperative, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Black Hills Special Services Cooperative's basic financial statements and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Hills Special Services 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 Black Hills Special Services Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of Black Hills Special Services Cooperative'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 and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2013-002 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Black Hills Special Services Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-001.

### Black Hills Special Services Cooperative's Response to Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive, flowing style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota

February 19, 2014



Independent Auditor's Report on Compliance for Each  
Major Federal Program and Report on Internal Control  
Over Compliance Required by OMB Circular A-133

Board of Directors  
Black Hills Special Services Cooperative  
Sturgis, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Black Hills Special Services Cooperative's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Black Hills Special Services Cooperative's major federal programs for the year ended June 30, 2013. Black Hills Special Services Cooperative 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 Black Hills Special Services Cooperative'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 Black Hills Special Services Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### Opinion on Each Major Federal Program

In our opinion, Black Hills Special Services Cooperative 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

Black Hills Special Services Cooperative's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Black Hills Special Services Cooperative's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

Management of Black Hills Special Services Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Black Hills Special Services Cooperative'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 Black Hills Special Services Cooperative's internal control over compliance.

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 items 2013-001 to be a material weakness.

Black Hills Special Services Cooperative's Response to Findings

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota

February 19, 2014



**Black Hills Special Services Cooperative  
Schedule of Audit Findings and Questioned Costs  
June 30, 2013**

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**SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

- a. The independent auditor's report expressed an unmodified opinion on the financial statements of Black Hills Special Services Cooperative.
- b. A material weakness relating to the audit of the financial statements is reported in the 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*.
- c. There was an instance of noncompliance material to the financial statements which would be required to be reported in accordance with *Government Auditing Standards*.
- d. The auditor's report on compliance for the major federal award programs for the Cooperative expresses an unmodified opinion on all major federal programs.
- e. A material weakness in internal control related to major federal programs was reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133
- f. Audit findings that are required to be reported in accordance with section 510(a) of *OMB Circular A-133* are reported in this schedule.
- g. The federal awards tested as major programs were:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
1. 17.207	Employment Service/Wagner – Peyser Funded Act. - ARRA
2. 17.259	Adult English Literacy/Title I WIA
3. 17.264	National Farmworker Jobs Program
4. 84.002	Adult Education - Basic Grants to States
5. 84.287	Twenty-First Century Community Learning Centers
6. 84.287C	Twenty-First Century Community Learning Centers
7. 84.363A	School Leadership
8. 93.283	Investigations and Technical Assistance
9. 93.544	Coordinated Chronic Disease Prevention and Health Promotion Program

- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. Black Hills Special Services Cooperative did not qualify as a low-risk entity.

**Black Hills Special Services Cooperative  
Schedule of Audit Findings and Questioned Costs  
June 30, 2013**

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**FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

INTERNAL CONTROL OVER COMPLIANCE – US DEPARTMENT OF HEALTH AND HUMAN SERVICES, PASSED-THROUGH THE SD DEPARTMENT OF HEALTH

Centers for Disease Control and Prevention – Investigations and Technical Assistance CFDA #93.283, The Patient Protection and Affordable Care Act of 2010 Coordinated Chronic Disease Prevention and Health Promotion Program CFDA #93.544

2013-001 *Condition:* Black Hills Special Services Cooperative does not have adequate internal controls to ensure the schedule of expenditures of federal awards includes only federal expenditures and properly reports the award program name and CFDA number.

*Criteria:* The Cooperative did not comply with OMB Circular A-133 Section 310(b), which requires the schedule of expenditures of federal awards to include all federal expenditures incurred for the reporting period and CFDA number.

*Effect:* Expenditures of the Centers for Disease Control and Prevention – Investigations and Technical Assistance were not properly reported in the schedule of expenditures of federal awards, resulting in audit adjustments to the schedule. Additionally, expenditures related to The Patient Protection and Affordable Care Act of 2010 – Coordinated Chronic Disease Prevention and Health Promotion Program were reported under the incorrect CFDA number.

*Cause:* The following items were noted, causing the schedule of federal awards to be misstated:

- Misstatements of expenditures related to the Centers for Disease Control and Prevention - Investigations and Technical Assistance were noted in the schedule of expenditures of federal awards due to state funding being misclassified as federal reimbursement. The auditor proposed changes to the schedule of expenditures of federal awards to correct the misstatements.
- Expenditures for The Patient Protection and Affordable Care Act of 2010 - Coordinated Chronic Disease Prevention and Health Promotion Program were identified under the same CFDA number as the Centers for Disease Control and Prevention - Investigations and Technical Assistance program. The correct CFDA number was identified by the auditor based on review of the grant agreement. The schedule of expenditures of federal awards was modified accordingly.

*Auditors' Recommendation:* Reported revenue reimbursement should be reviewed at year-end to ensure that all amounts are properly reported in the schedule of expenditures of federal awards, and the amounts should be based on program expenditures reimbursed by federal funds. Program names and CFDA numbers should also be reviewed at year-end to ensure that they are properly reported. This process may be performed by another employee who is knowledgeable about the federal award programs and their expenditures.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

2013-002 See Finding 2013-001 for condition, criteria, effect, cause, and auditors' recommendation.

**Black Hills Special Services Cooperative  
Schedule of Prior Audit Findings and Questioned Costs  
June 30, 2013**

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There were no prior year findings requiring reporting.

**Black Hills Special Services Cooperative  
Corrective Action Plan  
June 30, 2013**

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Black Hills Special Services Cooperative respectfully submits the following corrective action plan for the year ended June 30, 2013:

Name and address of the independent public accounting firm:

Casey Peterson & Associates, LTD  
909 Saint Joseph Street, Suite 101  
Rapid City, SD 57701

The findings from the June 30, 2013 schedule of audit findings and questioned costs are discussed below. The findings are numbered to correspond with the numbers assigned in the schedule. Georgia Sandgren, Business Manager, is responsible for the resolution of the findings disclosed within this document.

**FINDINGS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

INTERNAL CONTROL OVER COMPLIANCE – US DEPARTMENT OF HEALTH AND HUMAN SERVICES, PASSED-THROUGH THE SD DEPARTMENT OF HEALTH

Centers for Disease Control and Prevention – Investigations and Technical Assistance CFDA #93.283, The Patient Protection and Affordable Care Act of 2010 – Coordinated Chronic Disease Prevention and Health Promotion Program CFDA #93.544

2013-001 *Condition:* Black Hills Special Services Cooperative does not have adequate internal controls to ensure the schedule of expenditures of federal awards includes only federal expenditures and properly reports the award program name and CFDA number. The Cooperative did not comply with OMB Circular A-133 Section 310(b), which requires the schedule of expenditures of federal awards to include all federal expenditures incurred for the reporting period and CFDA number.

*Auditors' Recommendation:* Reported revenue reimbursement should be reviewed at year-end to ensure that all amounts are properly reported in the schedule of expenditures of federal awards, and the amounts should be based on program expenditures reimbursed by federal funds. Program names and CFDA numbers should also be reviewed at year-end to ensure that they are properly reported. This process may be performed by another employee who is knowledgeable about the federal award programs and their expenditures.

*Action Taken:* Georgia Sandgren, Business Manager, is the contract person responsible for the corrective action plan for this finding. The CFDA numbers identified in the award documents will no longer be solely relied up for preparation of the schedule of expenditures of federal awards. Reported revenues will be reviewed at year-end to ensure all amounts are properly reported with appropriate CFDA number.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

2013-002 See Finding 2013-001 for condition, criteria, auditors' recommendation, and action taken.



## Independent Auditor's Report

Board of Directors  
Black Hills Special Services Cooperative  
Sturgis, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Black Hills Special Services Cooperative as of June 30, 2013, and the related notes to the financial statements which collectively comprise the 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 Organization'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, 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 opinion.

## 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 Black Hills Special Services Cooperative as of June 30, 2013, 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, budgetary comparison information and schedule of funding progress for retiree health insurance coverage on pages 15 - 23 and 48 - 53 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 Black Hills Special Services Cooperative's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of cooperative officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014 on our consideration of Black Hills Special Services Cooperative'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Black Hills Special Services Cooperative's internal control over financial reporting and compliance.



Casey Peterson & Associates, LTD

Rapid City, South Dakota

February 19, 2014



# **Black Hills Special Services Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2013**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Black Hills Special Services Cooperative's (BHSSC) annual financial report presents discussion and analysis of BHSSC's financial performance during the fiscal year ended on June 30, 2013. Please read it in conjunction with BHSSC's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- BHSSC's net position from governmental activities increased by \$77,788. An insignificant decrease in assets was magnified by a decrease in liabilities. Current and other assets increased by \$55,238 while capital assets decreased by \$50,982. Total Liabilities decreased by \$73,532.
- During the year, BHSSC's revenues generated from governmental programs were \$77,788 more than the \$26,619,245 in governmental program expenditures.
- The total cost of BHSSC's programs decreased by 5.84 percent. While several federal projects came to an end, several projects received less funding, and there were very few new projects added. The number of staff decreased from the previous year by 5.34 percent.
- The Statement of Net Position reported a \$77,788 current year surplus. The \$77,788 surplus is attributed to revenues in excess of expenditures. This is a much smaller increase than experienced in the two previous years. However, the previous year's significant increase was largely due the cancelation of a capital lease.
- Depreciation expenses exceeded capital purchases by \$41,068. Vehicles and technology equipment made up the capital assets that were purchased this year. Leasing was used as an alternative to the purchase of other capital assets.
- Accrued leave decreased \$13,454. The number of employees carrying a leave balance increased by 2.9 percent. The number of hours those employees were carrying decreased by 16.81 percent. The average rate at which that leave would be paid has decreased by 1.75 percent also. The new time tracking system provides tools to better manage leave for hourly employees.
- Outstanding obligations included net OPEB (Other Post Employment Benefits) obligation for postemployment healthcare of \$218,017. That obligation will continue as long as the Cooperative allows retirees who are at least age 55 with ten years of continuous service to continue on the healthcare plan until age 65. The eligible retiree must pay the monthly premium. This obligation is expected to increase every year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of BHSSC:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about BHSSC's overall financial status.
- The remaining statements are fund financial statements that focus on individual programs, reporting operations in more detail than the government-wide statements.
- The governmental funds statements tell how general services were financed in the short-term as well as what remains for future spending.

See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of these financial statements, including the portion of the school government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-1</b>		
	<b>Government-Wide Statements</b>	<b>Fund Statements Governmental Funds</b>
Scope	Entire BHSSC government (except fiduciary funds and BHSSC's component units)	The activities of BHSSC that are not proprietary or fiduciary, such as elementary and high school education programs
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

See independent auditor's report.

# **Black Hills Special Services Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2013**

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## **Government-wide Financial Statements**

The government-wide statements report information about BHSSC as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report BHSSC's net position and how they have changed. Net Position (the difference between BHSSC's assets and liabilities) are one way to measure BHSSC's financial position.

- Increases or decreases in BHSSC's net position are indicators of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of BHSSC you need to consider additional nonfinancial factors such as changes in programs and changes in funding.

The government-wide financial statements of BHSSC are reported in the governmental activities category:

- **Governmental Activities** - This category includes BHSSC's basic instructional services, such as special education, alternative education, and residential programs, support services (social work, guidance counselor, nursing, psychology, speech pathology, physical and occupational therapy, improvements of instruction, board of education, administration, fiscal, operation and maintenance of plant services, and transportation services). Tuition, contracts for services, state contracts and grants, federal grants and interest earnings finance these activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about BHSSC's general fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. Fund accounting is required by South Dakota State Law.

BHSSC's operations fall under the governmental fund type.

**Governmental Funds** - All of BHSSC's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance BHSSC's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**

**FINANCIAL ANALYSIS OF BHSSC AS A WHOLE**

**Net Position**

BHSSC's combined statement of net position shows an increase from the previous year.

**Table A-1  
Black Hills Special Services Cooperative  
Statement of Net Position**

	Governmental Activities 2012	Governmental Activities 2013	Total Percentage Change
Current and Other Assets	\$ 5,075,279	\$ 5,130,517	1.09%
Capital Assets	528,490	477,508	-9.65%
Total Assets	<u>\$ 5,603,769</u>	<u>\$ 5,608,025</u>	0.08%
Long-term Debt Outstanding	\$ 319,695	\$ 358,146	12.03%
Other Liabilities	933,057	821,074	-12.00%
Total Liabilities	<u>\$ 1,252,752</u>	<u>\$ 1,179,220</u>	-5.87%
Net Position:			
Net Investment in Capital Assets	\$ 528,490	\$ 477,508	-9.65%
Unrestricted	3,822,527	3,951,297	3.37%
Total Net Position	<u>\$ 4,351,017</u>	<u>\$ 4,428,805</u>	1.79%
Beginning Net Position	\$ 3,602,721	\$ 4,351,017	
Increase in Net Position	748,296	77,788	
Percentage of Increase in Net Position	20.77%	1.79%	

BHSSC's increase in total assets can be contributed to an increase in current assets. However, that increase was offset by a decrease in capital assets. Total liabilities decreased. The decrease in other liabilities was countered by the increase in long-term debt outstanding. The increase in total assets of \$4,256 when combined with a decrease in total liabilities of \$73,532 resulted in the increase in net position of \$77,788. The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The long-term liabilities of BHSSC, consisting of compensated absences payable, and OPEB liability have been reported in this same manner on the Statement of Net Position. The difference between BHSSC's assets and liabilities is its net position.

See independent auditor's report.

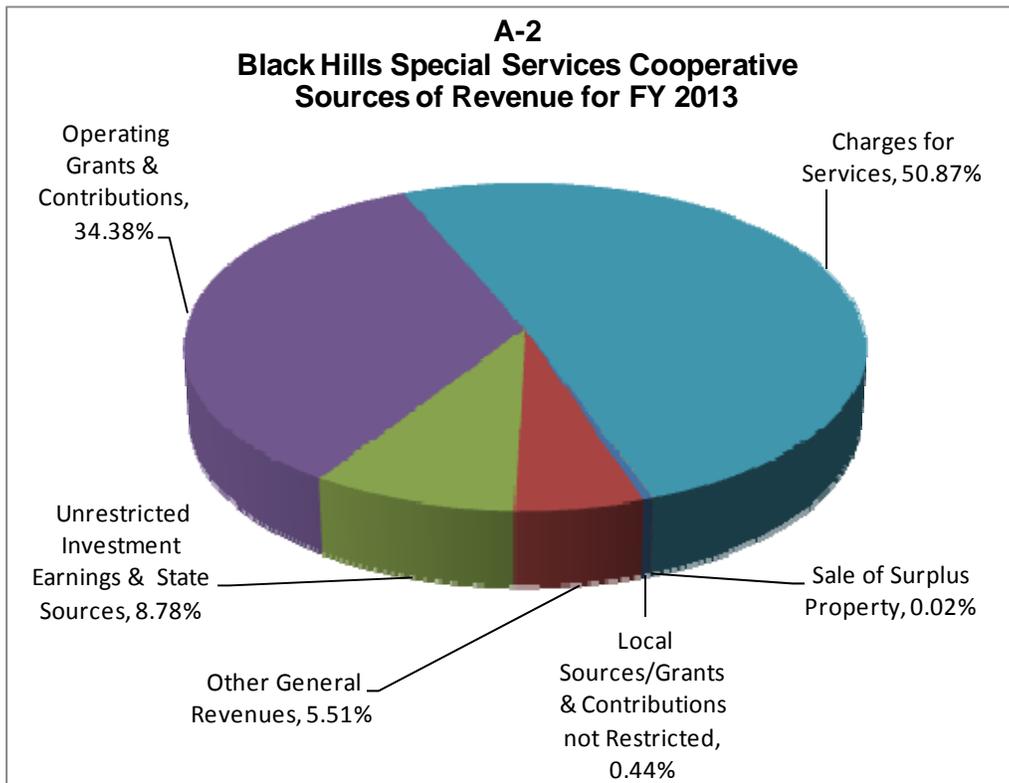
# Black Hills Special Services Cooperative Management's Discussion and Analysis (Unaudited) June 30, 2013

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## Changes in Net Position

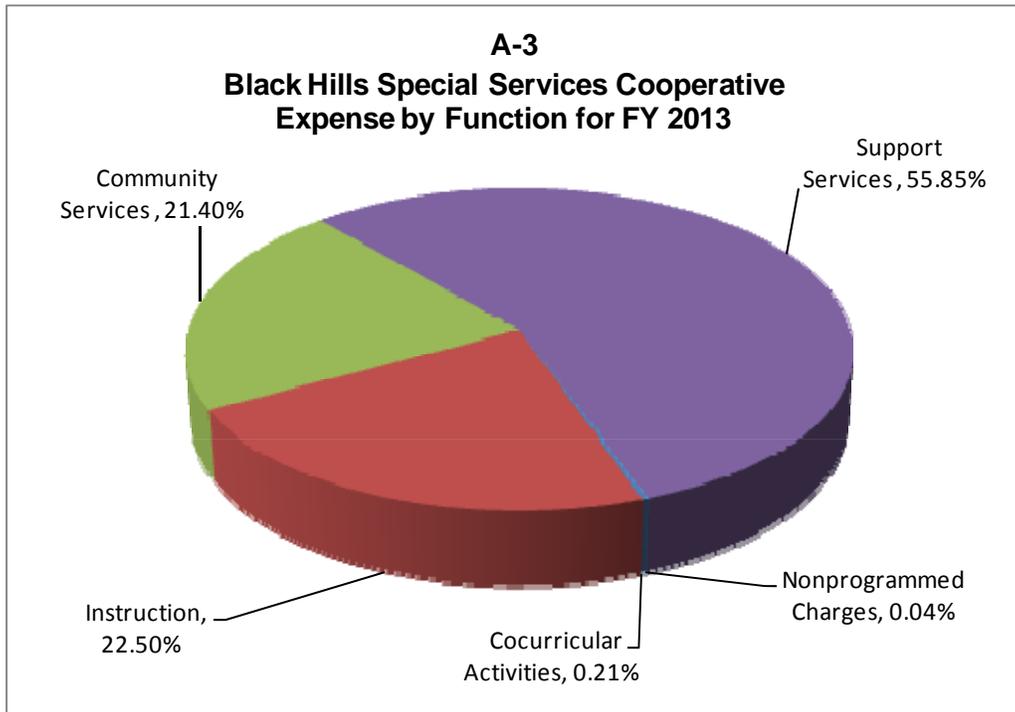
BHSSC's revenues totaled \$26,697,033. (See Table A-2.) More than 34 percent of BHSSC's program revenue comes from operating grants and contributions (federal, state and local sources), down from last year. Another 51 percent of the revenue is derived from charges for services, and the remaining 15 percent comes from general revenues. While charges for services are down three percent, other general revenue is again up six percent from last year (See Figure A-2). BHSSC's total revenues decreased by 8 percent to \$26,697,033. The change in sources between 2012 and 2013 is due to a decrease in state revenue sources and an even greater decrease in federal sources. The availability of grant sources continues to become more limited, with major federal awards coming to an end. Continuing to provide contracted services to local districts helped to maintain local sources.

BHSSC's expenses cover a range of services encompassing Instruction, support services, community services, co-curricular activities and interest on long-term debt. (See Figure A-3). The total cost of all programs decreased by 5.84 percent. Personnel costs increased to compensate, in part, for the decrease in purchased services. The Coop's administrative and business activities, including operation and maintenance of facilities costs and transportation costs, which increased in expenditures by 4.08 percent, increased to 7.9 percent of total allowable costs. Total expenditures decreased as the administrative expenses increased, resulting in the increase in administration's share of overall expenses.



See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**



**GOVERNMENTAL ACTIVITIES**

Table A-2 considers the operations of the governmental activities.

**Table A-2  
Black Hills Special Services Cooperative  
Changes in Net Position**

	Total Government Activities 2012	Total Government Activities 2013	Total Percentage Change 2012 - 2013
Revenues			
Program Revenues			
Charges for Services	\$ 13,989,436	\$ 13,581,933	-2.91%
Operating Grants & Contributions	11,142,166	9,177,309	-17.63%
General Revenues			
State Sources	1,932,470	2,337,611	20.96%
Revenue from Unrestricted Contributions	191,093	116,773	-38.89%
Unrestricted Investment Earnings	12,715	6,186	-51.35%
Other General Revenues	1,514,849	1,469,928	-2.97%
Gain on Disposal of Assets	236,393	7,293	100.00%
Total Revenues	<u>29,019,122</u>	<u>26,697,033</u>	-8.00%

See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**

	Total Government Activities <u>2012</u>	Total Government Activities <u>2013</u>	Total Percentage Change <u>2012 - 2013</u>
Expenses			
Instruction	6,183,376	5,990,535	-3.12%
Support Services	16,403,793	14,866,631	-9.37%
Community Services	5,605,391	5,696,289	1.62%
Cocurricular Activities	68,266	55,875	-18.15%
Nonprogrammed Charges	-	9,915	#DIV/0!
Interest on Long-Term Debt	<u>10,000</u>	<u>-</u>	-100.00%
Total Expenses	<u>28,270,826</u>	<u>26,619,245</u>	-5.84%
 Increase in Net Position	 <u>\$ 748,296</u>	 <u>\$ 77,788</u>	 -89.60%

**FINANCIAL ANALYSIS OF BHSSC'S FUNDS**

The General Fund increased by \$77,788 this year before the year-end adjustments for fund statement presentation. The management team continues to meet regularly to review budgets, income and program expenditures. The monthly report that was developed continues to facilitate this process. Directors receive the report each month and the report is reviewed by the management team at their regularly scheduled meetings.

**BUDGETARY HIGHLIGHTS**

The budget for expenditures totaled \$28,383,973 and revenues totaled \$ 28,183,973. Over the course of the year, the Board revised the budget two times. These amendments were a combination of two categories:

- Additional contracts and grants awarded during the year.
- Amendments to existing contracts and grants and program changes during the year.

BHSSC's final budget for the General Fund anticipated that revenues and expenditures would be equal, the actual results for the year showed a \$77,788 surplus before the fund statement adjustments.

- Revenues were \$1,660,372 lower than budgeted. Revenues from state sources increased while local and federal sources decreased.
- Expenditures were \$1,852,110 lower than budgeted. Expenditures were down in all areas except Community Services. All areas (instruction, support services, community services and co-curricular activities) expended less than budgeted.

See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**

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**CAPITAL ASSET ADMINISTRATION**

By the end of 2013, BHSSC had \$477,508 invested in capital assets, including various pieces of machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deletions) of \$50,982 or 9.65 percent.

**Table A-3  
Black Hills Special Services Cooperative  
Capital Assets  
(Net of Depreciation)**

	Governmental Activities 2012	Governmental Activities 2013
Buildings	\$ -	\$ -
Machinery & Equipment	528,490	477,508
<b>Total Capital Assets (Net)</b>	<b>\$ 528,490</b>	<b>\$ 477,508</b>

Capital asset purchases were vehicles and technology equipment. Fewer capital purchases were made during the year than in the previous year.

**LONG-TERM DEBT**

At year-end, BHSSC had \$358,146 in outstanding debt, which was up by 12.03 percent because of the increase of \$51,904 in the OPEB liability. Compensated absences were down \$13,453. There was a net increase of 12.03 percent as shown on Table A-4 below.

**Table A-4  
Black Hills Special Services Cooperative  
Outstanding Debt and Obligations**

	Governmental Activities FY 2012	Governmental Activities FY 2013	Total Dollar Change FY 2013	Total Percentage Change FY 2013
Compensated Absences	\$ 153,582	\$ 140,129	\$ (13,453)	-8.76%
OPEB Liability	166,113	218,017	51,904	100.00%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 319,695</b>	<b>\$ 358,146</b>	<b>\$ 38,451</b>	12.03%

BHSSC is liable for the accrued annual leave payable to the Class 2 salaried and Class 4 permanent employees and paid personal leave for Class 4 hourly employees. The maximum accumulated leave is 160 hours.

The OPEB liability is required to be reevaluated every two years. That reevaluation was conducted in FY 2013.

See independent auditor's report.

**Black Hills Special Services Cooperative  
Management's Discussion and Analysis (Unaudited)  
June 30, 2013**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

BHSSC's current economic position continues to improve. Greater accountability from department heads has positively impacted future losses. While local school districts are being asked to provide quality education with reductions in funding and increased federal regulations, the districts' and the state's benefit from services provided by BHSSC, increasing demand for those services. The increasing level of expenses for administration when compared to the decreasing total expenses results in an increased indirect cost rate, which has a favorable impact of the overall future profits. BHSSC does not have the authority to tax or bond. BHSSC is also not eligible for state aid with the current formula. BHSSC's Title XIX/HCBS population remains stable. Funding from the state to school districts has yet to overcome previous decreases. The stabilization of funding to schools is proposed to change in the upcoming year. Other funding sources may still to be eliminated entirely. The cost of providing health insurance to staff saw a 5 percent increase this year, holding benefit costs relatively stable. Healthcare reform is expected to necessitate substantial increases in premiums in the coming year. The overall budget for next year will likely see a decrease due to reduction and/or elimination of several programs.

**CONTACTING BHSSC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of BHSSC's finances and to demonstrate BHSSC's accountability for the money it receives. If you have questions about this report or need additional information, contact BHSSC's Business Office, P.O. Box 218, Sturgis, SD 57785.

See independent auditor's report.

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## BASIC FINANCIAL STATEMENTS

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**Black Hills Special Services Cooperative**  
**Statement of Net Position**  
**June 30, 2013**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,429,859
Accounts Receivable	232,883
Due from Other Governments	2,385,169
Inventory of Supplies	81,738
Deposits	868
Capital Assets:	
Machinery and Equipment	1,049,867
Less Accumulated Depreciation	<u>(572,359)</u>
Total Capital Assets, Net of Depreciation	<u>477,508</u>
<b>TOTAL ASSETS</b>	<u>5,608,025</u>
<b>LIABILITIES</b>	
Accounts Payable	420,626
Deferred Revenue	400,448
Long-term Liabilities	
Due Within One Year	140,129
Due In More Than One Year	<u>218,017</u>
<b>TOTAL LIABILITIES</b>	<u>1,179,220</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	477,508
Unrestricted	<u>3,951,297</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 4,428,805</u></u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative  
Statement of Activities  
For the Year Ended June 30, 2013**

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<u>Functions/Programs</u>	<u>Expenses</u>
Primary Government:	
Governmental Activities:	
Instruction	\$ 5,990,535
Support Services	14,866,631
Community Services	5,696,289
Cocurricular Activities	55,875
Nonprogrammed Charges	<u>9,915</u>
Total Governmental Activities	<u>\$ 26,619,245</u>

The accompanying notes are an integral part of this statement.

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
\$ 2,097,476	\$ 4,113,853	\$ 220,794
5,570,074	4,525,246	(4,771,311)
5,914,383	538,210	756,304
-	-	(55,875)
-	-	<u>(9,915)</u>
<u>\$ 13,581,933</u>	<u>\$ 9,177,309</u>	<u>(3,860,003)</u>

**GENERAL REVENUES AND SPECIAL ITEMS**

Revenue from State Sources	2,337,611
Revenue from Contributions not Restricted to Specific Programs	116,773
Unrestricted Investment Earnings	6,186
Other General Revenues	<u>1,477,221</u>
Total General Revenues and Special Items	<u>3,937,791</u>
<b>INCREASE IN NET POSITION</b>	77,788
<b>NET POSITION - BEGINNING</b>	<u>4,351,017</u>
<b>NET POSITION - ENDING</b>	<u>\$ 4,428,805</u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative  
Balance Sheet - Governmental Fund  
June 30, 2013**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,429,859
Accounts Receivable	232,883
Due from Other Governments	2,385,169
Inventory of Supplies	81,738
Deposits	<u>868</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,130,517</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 420,626
Deferred Revenue	<u>901,822</u>
<b>TOTAL LIABILITIES</b>	<u>1,322,448</u>
<b>FUND BALANCE</b>	
Nonspendable:	
For Deposits	868
For Inventory	81,738
Unassigned	<u>3,725,463</u>
<b>TOTAL FUND BALANCE</b>	<u>3,808,069</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 5,130,517</u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative  
Reconciliation of the Governmental Fund Balance  
Sheet to the Statement of Net Position  
June 30, 2013**

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Total Fund Balance - Governmental Fund	\$ 3,808,069
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	477,508
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated Absences	(140,129)
OPEB Liability	(218,017)
Assets, including grants and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	<u>501,374</u>
Net Position - Governmental Activities	<u><u>\$ 4,428,805</u></u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Governmental Fund**  
**For the Year Ended June 30, 2013**

	General Fund
<b>REVENUES</b>	
Revenue from Local Sources	
Tuition and Fees	\$ 1,679,963
Transportation Fees	74,171
Earnings on Investments and Deposits	6,186
Other Revenue from Local Sources	7,918,261
Revenue from State Sources	5,528,725
Revenue from Federal Sources	11,316,355
<b>TOTAL REVENUES</b>	<b>26,523,661</b>
<b>EXPENDITURES</b>	
Instructional:	
Regular Programs	1,358,844
Special Programs	2,804,046
Adult Continuing Education Programs	426,759
Post Secondary Occupational Programs	1,390,565
Total Instruction	5,980,214
Support Services:	
Pupils	3,366,181
Instruction Staff	5,660,943
General Administration	1,201,836
Business	1,882,497
Central	847,076
Special Education	851,465
Other Support Services	762,553
Resale Services	174,439
Total Support Services	14,746,990
Community Services	5,684,855
Cocurricular Activities	55,730
Capital Outlay	64,081
<b>TOTAL EXPENDITURES</b>	<b>26,531,870</b>

The accompanying notes are an integral part of this statement.

	<u>General Fund</u>
Excess of Expenditures Over Revenues	<u>(8,209)</u>
<b>OTHER FINANCING SOURCES</b>	
Proceeds from Insurance	6,256
Proceeds from the Sale of Capital Assets	<u>7,293</u>
Total Other Financing Sources	<u>13,549</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>	5,340
Change in Non-spendable Fund Balance	<u>4,314</u>
Net Change in Fund Balance	9,654
<b>FUND BALANCE - BEGINNING</b>	<u>3,798,415</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 3,808,069</u></u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative**  
**Reconciliation of the Governmental Fund Statement of Revenues,**  
**Expenditures and Changes in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2013**

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Net Change in Fund Balance, Prior to Change in Fund Balance Reserves - Governmental Fund	\$	5,340
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds use the purchases method of accounting for inventory whereby changes in inventory are accounted for through a nonspendable fund balance and inventory is recorded as an expenditure when purchased. However, the governmental activities use the consumption method whereby inventory is recorded as an expenses when consumed.		4,314
Governmental funds do not reflect a gain or loss on disposal of capital assets, but the Statement of Activities reports the gain or loss when assets are disposed. This reflects the cost in excess of accumulated depreciation on capital assets retired.		(9,914)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		(41,068)
The recognition of revenues in the governmental funds differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."		157,566
Governmental funds do not reflect the change in compensated absences and post employment benefits, but the Statement of Activities reflects the change in compensated absences and post employment benefits through expenses.		<u>(38,450)</u>
Change in Net Position - Governmental Activities	\$	<u>77,788</u>

The accompanying notes are an integral part of this statement.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

The financial statements of Black Hills Special Services Cooperative are prepared in accordance with generally accepted accounting principles. Black Hills Special Services Cooperative applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**A. REPORTING ENTITY**

Black Hills Special Services Cooperative (the Cooperative) was established in 1980 as a joint venture among member school districts for the purpose of providing vital educational services for both youth and adults. The Board of Directors of the Cooperative is comprised of one representative from each member school district. The Board of Directors is responsible for adopting the Cooperative's budget and setting service fees at a level adequate to fund the adopted budget. The member school districts retain no equity interest in the net position of the Cooperative, but do have a responsibility to fund deficits of the Cooperative in proportion to their relative participation. There are no component units included within the reporting entity.

**B. RELATED ORGANIZATIONS**

Related organizations are excluded from the financial reporting entity because the Cooperative's accountability for these organizations does not extend beyond making appointments or because management has determined the assets the Cooperative has the ability to access are not significant. The Cooperative's only related organization is described below:

Black Hills Education Benefits Plan - The Cooperative participates in a cooperative service unit with several other school districts. See Note 9 "Joint Venture" for specific disclosure. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the Cooperative.

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

*Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the Cooperative. These statements include the financial activities of the overall Cooperative. Governmental activities are generally financed through grants and other non-exchange transactions.

The Statement of Net Position reports all financial and capital resources in a net position format (assets minus liabilities equal net position). Net position is displayed in three components, as applicable; net investment in capital assets, restricted, and unrestricted.

The Statement of Activities presents a comparison between direct expense and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. The funds are accounted for by providing a separate set of self balancing accounts that constitute its' assets, liabilities, fund equity, revenues and expenditures. The Cooperative has one fund, which is classified as a governmental fund and therefore does not present proprietary or fiduciary fund categories.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

**D. FUND TYPES AND MAJOR FUND**

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is a primary operating fund of the Cooperative.

The Cooperative only has one fund. This fund is described below.

*Governmental Funds*

General Fund - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet the general operational costs of the Cooperative. The General Fund is always a major fund.

**E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus

*Government-wide Financial Statements*

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the “economic resources” measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statement*

In the fund financial statements the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to the governmental fund types.

Basis of Accounting

*Government-wide Financial Statements*

The government-wide financial statements 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. Non-exchange transactions, in which the Cooperative gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenues from grants and donations are recognized in the fiscal year which all eligibility requirements have been satisfied.

*Fund Financial Statements*

In the fund financial statements, the governmental fund is reported using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Cooperative considers significant revenues reported in the governmental fund to be available if the revenues are collected within sixty days after year-end.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and changes in the OPEB liability, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental fund. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the Cooperative funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Cooperative's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

**F. ACCOUNTS RECEIVABLE**

Accounts receivable are considered by management to be fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

**G. INVENTORY**

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the General Fund inventory consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable portion of fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**H. CAPITAL ASSETS**

Capital assets include a building, machinery, and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation expense is calculated using the straight-line method.

Depreciation of exhaustible fixed assets for buildings, machinery, and equipment is recorded as an allocated expense in the Statement of Activities. The net capital assets are reflected in the Statement of Net Position. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Statement of Net Position are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building (Capital Lease)	\$ 5,000	Straight line	Life of Lease
Machinery and Equipment	5,000	Straight line	5-15 yrs.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

**I. LONG-TERM LIABILITIES**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements*

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements when incurred. The long-term liabilities consist of compensated absences, and other post employment benefits (OPEB) liability. Note 5 provides more information on the OPEB liability. Accounting policies related to compensated absences payable are as follows:

Annual vacation is earned by salaried employees as outlined in their individual contracts. Vacation can be accrued up to 160 hours. Paid personal leave is earned by hourly employees based upon length of service. Paid personal leave can be accrued up to 160 hours. Upon termination, employees are entitled to receive compensation for their accrued vacation or paid personal leave balance.

Sick leave is earned by salaried employees as per their individual contracts. Sick leave can be accrued to 480 or 640 hours, depending on employment class. Upon termination, salaried and certified employees are not entitled to receive compensation for accrued sick leave balances.

*Fund Financial Statements*

In the fund financial statements, debt proceeds are reported as revenues and payment of principal and interest is reported as expenditures when they become due. Compensated absences and OPEB obligations are recorded as expenditures when paid.

**J. DEFERRED REVENUE**

Under the modified accrual basis of accounting, receivables may be measurable, but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

The deferred revenue presented in the Statement of Net Position and the fund financial statements represent amounts related to grants and charges for services in which the revenue recognition criteria has not been met.

**K. NET POSITION AND FUND BALANCE**

*Government-wide Financial Statements:*

It is the Cooperative's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Net position reported in the Statement of Net Position includes the following:

*Net Investment in Capital Assets* - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of borrowings that are attributable to the acquisition, or improvement of those assets.

*Restricted* - Consists of net position with constraints placed on its use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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

*Unrestricted* - Represents all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

*Fund Financial Statements:*

The Cooperative classifies governmental fund balances as follows:

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

*Restricted* - Constraints are placed on the use of resources by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Assigned* - Amounts that are constrained by the Cooperative’s intent to be used for specific purposes but are not restricted. Amounts can be assigned by committees of the Board of Directors or management of the Cooperative.

*Unassigned* - Represents fund balance that has not been assigned to other funds and that has not been restricted or assigned.

The Cooperative uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Cooperative would first use assigned and then unassigned amounts of fund balance when expenditures are made.

The Cooperative does not have a formal minimum fund balance policy.

**L. PROGRAM REVENUE**

In the Statement of Activities, reported program revenue is derived directly from the program itself or from other parties, as a whole. Program revenues are classified into two categories, as follows:

*Charges for Services* - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

*Program Revenues - Operating Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Statutes impose various restrictions on deposits and investments. These restrictions are summarized below:

*Deposits* - The Cooperative’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA”, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 2 - DEPOSITS AND INVESTMENTS**

*Investments* - In general, SDCL 4-5-6 permits the Cooperative's funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly or (b) repurchase agreements fully collateralized by securities described in (a) or in shares of an open-end, no-load mutual fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

*Credit Risk* - State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices. As of June 30, 2013, the Cooperative did not have any investments.

*Custodial Credit Risk - Deposits* - The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk.

*Interest Rate Risk* - The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments include reimbursements from state and federal grants and charges for services.

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets Being Depreciated:				
Machinery and Equipment	\$ 1,135,282	\$ 64,081	\$ 149,496	\$ 1,049,867
Subtotals	<u>1,135,282</u>	<u>64,081</u>	<u>149,496</u>	<u>1,049,867</u>
Less Accumulated Depreciation				
Machinery and Equipment	<u>606,792</u>	<u>105,149</u>	<u>139,582</u>	<u>572,359</u>
Subtotal	<u>606,792</u>	<u>105,149</u>	<u>139,582</u>	<u>572,359</u>
Net Capital Assets	<u>\$ 528,490</u>	<u>\$ (41,068)</u>	<u>\$ 9,914</u>	<u>\$ 477,508</u>

Depreciation expense was charged to governmental functions as follows:

Support Services	\$ 103,649
Community Services	<u>1,500</u>
	<u>\$ 105,149</u>

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

**NOTE 5 - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013	Due Within One Year
Compensated Absences	\$ 153,583	\$ 185,491	\$ 198,945	\$ 140,129	\$ 140,129
OPEB Liability	<u>166,113</u>	<u>51,904</u>	<u>-</u>	<u>218,017</u>	<u>-</u>
Total	<u>\$ 319,696</u>	<u>\$ 237,395</u>	<u>\$ 198,945</u>	<u>\$ 358,146</u>	<u>\$ 140,129</u>

**NOTE 6 - OPERATING LEASES**

Numerous operating leases exist for buildings and equipment which expire at various dates through 2018. Operating lease expense for the year ended June 30, 2013 was \$826,215. One operating lease for a building is with an employee of the Cooperative and is a month-to-month operating lease. The lease expense related to this lease for the year ended June 30, 2013 was \$9,600. The Cooperative also subleases a portion of the office space leased through an operating lease at one of its locations. The revenue received for the year ended June 30, 2013 was \$18,792.

The following are the minimum payments on existing operating leases:

Year Ending June 30,	Amount
2014	\$ 744,407
2015	147,756
2016	66,693
2017	26,860
2018	1,598
Thereafter	-

**NOTE 7 - RETIREMENT PLAN**

All employees working more than 20 hours per week during the school year participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 7 - RETIREMENT PLAN (CONTINUED)**

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Cooperative's share of contributions to the SDRS for the years ended June 30, 2013, 2012, and 2011, were \$656,261, \$656,871, and \$776,311, respectively, equal to the required contributions each year.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Cooperative was formed through a joint venture between twelve school districts. The school districts are Belle Fourche School District, Custer School District, Douglas School District, Edgemont School District, Haakon School District, Hill City School District, Hot Springs School District, Lead-Deadwood School District, Meade School District, Oelrichs School District, Rapid City School District, and Spearfish School District. The Cooperative receives annual membership fees, tuition fees, and other service fees from its member school districts in return for providing technical assistance, consultation or specialty services such as psychology or therapy services.

For the year ended June 30, 2013, the Cooperative earned revenue of \$5,468,340 as a result of membership fees, services fees, and tuition from member school districts.

The Cooperative also contracts with some of the member school districts to provide meal services, busing, and transportation. As a result of these contracts, the Cooperative paid \$176,713 to contracted member school districts for the year ended June 30, 2013.

**NOTE 9 - JOINT VENTURE**

The Cooperative participates in the Black Hills Educational Benefits Cooperative (BHEBC), a cooperative service unit formed for the purpose of providing health insurance services to the member school districts.

The members of the joint venture are Black Hills Special Services Cooperative, New Underwood School District 51-3, Wall School District 51-5, Custer School District 16-1, Oelrichs School District 23-3, and Belle Fourche School District 9-1.

BHEBC's governing board is comprised of two representatives from each member district. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. Members are not liable for claims in excess of BHEBC's assets.

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2013, this joint venture had total fund equity of \$2,796,679 and no long-term debt.

**NOTE 10 - CONCENTRATION OF BUSINESS RELATIONSHIP**

The Cooperative engages in significant business transactions with the West River Foundation (the Foundation). The nature of these transactions results in a concentration of business relationship. The various transactions between the Cooperative and Foundation are as follows:

The Cooperative leases a majority of its building space from the Foundation. During the year ended June 30, 2013, the Cooperative paid \$574,784 for operating leases. In addition, the Cooperative also purchased \$327,979 of equipment, supplies, and services from the Foundation. The Foundation also reimburses the Cooperative for its use of the Cooperative's administrative and clerical personnel and other expenses. For the year ended June 30, 2013, the Foundation remitted \$35,509 for these services.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 10 - CONCENTRATION OF BUSINESS RELATIONSHIP (CONTINUED)**

The Cooperative has contract agreements with the Foundation for administration of various programs, such as the West River Business Service Center, and for purchases of goods and services. During the year ended June 30, 2013, the Foundation paid the Cooperative \$896,059 for these services. The Foundation also sponsors the Parental Assistance Center federal grant on behalf of the Cooperative. Awards received under this grant for the year ended June 30, 2013 were \$51,013. In addition, as of June 30, 2013, the Cooperative had outstanding accounts receivable of \$27,888 due from the Foundation, and \$26,476 in accounts payable due to the Foundation.

**NOTE 11 - RISK MANAGEMENT**

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2013, the Cooperative managed its risks as follows:

Employee Health Insurance

The Cooperative joined together with other educational units in the state to form a public entity risk pool as discussed in Notes 9 and 12. This is a public entity risk pool currently operating as a common risk management and insurance program for six member school districts. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$1,000 per person up to \$2,000 per family. The plan also provides for coinsurance of 70 or 80 percent up to \$5,000. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

The Cooperative does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance

The Cooperative purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. In prior years, settled claims resulting from these risks have not exceeded the Cooperative's liability coverage.

Worker's Compensation

The Cooperative purchases insurance for worker's compensation from a commercial insurance carrier. In prior years, settled claims resulting from these risks have not exceeded the Cooperative's liability coverage.

Unemployment Benefits

The Cooperative provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN**

Plan Description

The Cooperative offers a health insurance plan, established under SDCL 13-10-3, through Black Hills Educational Benefits Cooperative (BHEBC), which is a cooperative service unit formed for the purpose of providing health insurance services to member school districts as previously described in Notes 9 and 11. The members participate in a cost-sharing plan by pooling their participants to receive better insurance premiums than the members would receive individually. The premiums of the covered retirees are established by BHEBC, but the Cooperative's board determines retiree and employer contribution rates. Because of this cost-sharing structure, the health insurance plan would fall under a cost sharing multiple-employer OPEB plan arrangement. However, the members have not committed to share the annual OPEB costs, actuarial accrued liabilities, plan assets, or unfunded actuarial accrued liabilities and each member is receiving a separate actuarial report. Because the OPEB costs are not shared, each member's separate actuarial valuation falls under the accounting for single-employer OPEB plans. The health insurance plan does not issue separately stated stand-alone financial statements.

An employee of the Cooperative who is eligible to participate in the group health plan is covered. A covered individual who retires from the Cooperative and is at least age 55, has ten years of continuous service with the Cooperative and is currently participating in the group insurance plan at the time of retirement is eligible for health insurance. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse is eligible for Medicare. Non-spouse dependents may continue coverage for a maximum of 36 months or until the dependent is eligible for Medicare, whichever is shorter. The eligible retiree must pay monthly contributions based on 100% of the full active employee premium rate. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected.

Annual OPEB Cost

The Cooperative's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, and 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 normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

ARC	\$ 54,514
Interest on Net OPEB	7,890
Adjustment to ARC	<u>(10,500)</u>
Annual OPEB Cost	51,904
Contributions Made	<u>-</u>
Change in Net OPEB Obligation	51,904
Net OPEB Obligation-Beginning	<u>166,113</u>
Net OPEB Obligation-Ending	<u><u>\$ 218,017</u></u>

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

The Cooperative's annual OPEB cost data and net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 71,210	\$ 50,270	70.59%	\$ 166,113
6/30/2012	70,881	70,881	100.00%	166,113
6/30/2013	51,904	-	0.00%	218,017

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 plan members) and include 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. The State prohibits local governments from separately rating active employees and retirees. Therefore, both groups are charged an equal, blended premium rate for single or family coverage. Although both groups are charged the same rate, GAAP requires the actuarial amounts to be calculated using age-adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age-adjusted premiums results in the inclusion of an implicit rate subsidy in the actuarial accrued liability.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used to determine the annual required contribution.

The actuarial value of assets must be determined based on some recognition of the fair market value of assets. Initially, the actuarial value of assets is to be equal to the fair market value of assets. This method will be formally adopted after decisions regarding the OPEB Plan's funding and investment policy are made.

The unfunded accrued liability is being amortized as a level dollar amount on an open basis over a period of thirty years.

**Black Hills Special Services Cooperative**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**NOTE 12 - POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

The actuarial assumptions include:

The assumed claim costs were determined from the self-insured premiums and underlying claim experience of the OPEB Plans actuarial age adjustment factors. The retiree participation rate is 50% for employees currently electing coverage. The assumed retirement rates are as follows:

<u>Age</u>	<u>Rate</u>
55	10.0%
56-57	2.5%
58-59	5.0%
60-61	10.0%
62	25.0%
63-64	10.0%
65 and Over	100.0%

The actuarial present value of future benefits is the present value necessary today to provide for a benefit payment or series of benefit payments in the future for all plan participants. It is determined by discounting the future benefit payments at the assumed investment return of 4.75% and reflects the probability of payment. Both the rate of return and the healthcare cost trend rate include assumed inflation rate of 3.0%. The health care cost trend rates are as follows:

<u>Year</u>	<u>Expense Rate</u>
2013	6.0%
2014	5.0%
2015	5.0%
2016	5.0%
2017	5.0%

REQUIRED SUPPLEMENTARY INFORMATION

**Black Hills Special Services Cooperative  
Budgetary Comparison Schedule -  
General Fund - Budgetary Basis  
For the Year Ended June 30, 2013**

	Budgeted Amounts	
	Original	Final
<b>REVENUES</b>		
Revenue from Local Sources		
Tuition and Fees	\$ 1,540,286	\$ 1,540,286
Transportation Fees	740,000	740,000
Earnings on Investments and Deposits	12,500	12,500
Other Revenue from Local Sources	8,819,952	8,937,851
Revenue from State Sources	4,860,497	4,894,685
Revenue from Federal Sources	<u>11,906,072</u>	<u>12,058,711</u>
<b>TOTAL REVENUE</b>	<u>27,879,307</u>	<u>28,184,033</u>
<b>EXPENDITURES</b>		
Instruction		
Regular Programs	1,465,717	1,465,717
Special Programs	2,758,726	2,758,726
Adult Continuing Education Programs	412,783	399,413
Post Secondary Occupational Programs	<u>1,362,785</u>	<u>1,379,781</u>
Total Instruction	<u>6,000,011</u>	<u>6,003,637</u>
Support Services		
Pupils	3,440,240	3,334,790
Instruction Staff	5,007,555	5,174,194
General Administration	1,356,731	1,425,990
Business	3,530,358	3,530,358
Central	851,959	851,959
Special Education	858,857	858,857
Other Support Services	820,675	820,675
Resale Services	<u>187,880</u>	<u>187,880</u>
Total Support Services	<u>16,054,255</u>	<u>16,184,703</u>
Community Services	<u>5,835,686</u>	<u>6,006,285</u>
Cocurricular Activities	<u>75,355</u>	<u>75,355</u>
Debt Service	<u>114,000</u>	<u>114,000</u>
<b>TOTAL EXPENDITURES</b>	<u>28,079,307</u>	<u>28,383,980</u>

See independent auditor's report and the accompanying notes  
to the required supplementary information.

<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
\$ 1,679,963	\$ 139,677
74,171	(665,829)
6,186	(6,314)
7,918,261	(1,019,590)
5,528,725	634,040
<u>11,316,355</u>	<u>(742,356)</u>
<u>26,523,661</u>	<u>(1,660,372)</u>
1,358,844	106,873
2,804,046	(45,320)
426,759	(27,346)
<u>1,390,565</u>	<u>(10,784)</u>
<u>5,980,214</u>	<u>23,423</u>
3,366,182	(31,392)
5,660,943	(486,749)
1,260,911	165,079
1,887,502	1,642,856
847,076	4,883
851,465	7,392
762,553	58,122
<u>174,439</u>	<u>13,441</u>
<u>14,811,071</u>	<u>1,373,632</u>
<u>5,684,855</u>	<u>321,430</u>
<u>55,730</u>	<u>19,625</u>
<u>-</u>	<u>114,000</u>
<u>26,531,870</u>	<u>1,852,110</u>

See independent auditor's report and the accompanying notes  
to the required supplementary information.

**Black Hills Special Services Cooperative  
Budgetary Comparison Schedule -  
General Fund - Budgetary Basis (Continued)  
For the Year Ended June 30, 2013**

	Budgeted Amounts	
	Original	Final
Excess of Revenues Over Expenditures	(200,000)	(199,947)
<b>OTHER FINANCING SOURCES</b>		
Proceeds from the Sale of Capital Assets	-	-
Proceeds from Insurance	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	-	-
Excess of Revenues Over Expenditures and Other Financing Sources	(200,000)	(199,947)
Changes in Non-spendable Fund Balance	-	-
Net Change in Fund Balance	(200,000)	(199,947)
<b>FUND BALANCE - BEGINNING</b>	3,798,415	3,798,415
<b>FUND BALANCE - ENDING</b>	\$ 3,598,415	\$ 3,598,468

See independent auditor's report and the accompanying notes  
to the required supplementary information.

<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
(8,209)	191,738
7,293	7,293
<u>6,256</u>	<u>6,256</u>
<u>13,549</u>	<u>13,549</u>
5,340	205,287
<u>4,314</u>	<u>4,314</u>
9,654	209,601
<u>3,798,415</u>	<u>-</u>
<u>\$ 3,808,069</u>	<u>\$ 209,601</u>

See independent auditor's report and the accompanying notes  
to the required supplementary information.

**Black Hills Special Services Cooperative**  
**Notes to Required Supplementary Information**  
**June 30, 2013**

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**NOTE 1 - BASIS OF PRESENTATION**

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule - General Fund - Budgetary Basis presents capital outlay expenditures within each function, while the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund presents capital outlay expenditures as a separate function.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year, the Cooperative board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the Cooperative Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the Cooperative board must approve the budget for the ensuing fiscal year.
6. After adoption by the Cooperative board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted. An exception exists when, if it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when moneys are available to increase legal spending authority.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total Cooperative budget and may be transferred by resolution of the Cooperative to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. Unexpended appropriations lapse at year end unless encumbered by resolution of the board. No encumbrances were outstanding at June 30, 2013.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund.
10. Budgets for the General Fund are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).

See independent auditor's report and the accompanying notes  
to the required supplementary information.

**Black Hills Special Services Cooperative  
Schedule of Funding Progress  
For Retiree Health Insurance Coverage  
For the Year Ended June 30, 2013**

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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)
6/30/2009	\$ -	\$ 748,994	\$ 748,994	0.0%	\$ 10,767,657	7.0%
6/30/2011	-	582,751	582,751	0.0%	10,554,073	5.5%
6/30/2013	-	450,316	450,316	0.0%	10,884,727	4.1%

See independent auditor's report and the accompanying notes  
to the required supplementary information.

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SUPPLEMENTARY INFORMATION

**Black Hills Special Services Cooperative  
Cooperative Officials  
June 30, 2013**

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BOARD MEMBERS

Bev Banks, President  
Anita Peterson, Vice President  
Dave Bressler  
Heath Greenough  
Cydnee Gruszynski  
Jim Hansen  
Susan Humiston  
Larry Larson  
Nancy Richter  
Paul Schoenfelder  
Orson Ward  
Tim Wicks

DIRECTOR

Joe Hauge

BUSINESS MANAGER

Georgia Sandgren

See independent auditor's report.

**Black Hills Special Services Cooperative  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2013**

	CFDA Numbers	Amount
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
Pass-through the SD Department of Education		
Child Nutrition Cluster:		
School Breakfast Program (Note 2)	10.553	\$ 31,426
National School Lunch Program	10.555	66,981
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b>98,407</b>
<b>U.S. DEPARTMENT OF LABOR</b>		
Direct Federal Funding		
National Farmworker Jobs Program	17.264	619,080
Pass-Through The SD Department of Labor		
Employment Service/Wagner - Peyser Funded Act. - ARRA	17.207	539,568
Adult English Literacy/Title I WIA	17.259	108,969
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>		<b>1,267,617</b>
<b>NATIONAL FOUNDATION OF THE ARTS AND HUMANITIES</b>		
Pass-through the SD Department of Education		
Promotion of the Arts Partnership Agreements	45.025	2,500
<b>NATIONAL SCIENCE FOUNDATION</b>		
Direct Federal Funding		
Education and Human Resources	47.076	85,085

See independent auditor's report.

**Black Hills Special Services Cooperative  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2013**

	<u>CFDA Numbers</u>	<u>Amount</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Direct Federal Funding		
Fund for the Improvement of Education	84.215S	275,625
Advanced Placement Incentive Program	84.330C	606,009
Transition to Teaching	84.350B	276,463
School Leadership	84.363A	624,146
Pass-through SD Department of Labor		
Adult Education-Basic Grants to States	84.002	272,832
Pass-through SD Department of Health		
State Grant for Assistive Technology	84.224A	409,355
Pass-through SD Department of Education		
Title I Grants to Local Educational Agencies	84.010A	46,354
Special Education-Grants to States	84.027A	77,155
Career and Technical Education-Basic Grants to States	84.048A	68,586
Twenty-First Century Community Learning Centers	84.287	386,537
Twenty-First Century Community Learning Centers	84.287C	131,157
English Language Acquisition Grants	84.365	19,989
Mathematics and Science Partnerships	84.366B	226,514
Education Technology State Grants, Recovery Act	84.386A	104,859
Pass-through West River Foundation for Excellence		
Parental Information and Resource Centers	84.310A	<u>51,013</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<u>3,576,594</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Pass-through SD Department of Human Services		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	22,172
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	49,335
Pass-through SD Department of Health		
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	239,319
The Patient Protection and Affordable Care Act of 2010 - Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	<u>44,796</u>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		<u>355,622</u>

See independent auditor's report.

	<u>CFDA Numbers</u>	<u>Amount</u>
<b>CORPORATION OF NATIONAL AND COMMUNITY SERVICES</b>		
Direct Federal Funding		
Foster Grandparent Program	94.011	<u>254,653</u>
<b>SOCIAL SECURITY ADMINISTRATION</b>		
Direct Federal Funding		
Social Security-Work Incentives Planning and Assistance Program	96.008	<u>11,638</u>
<b>GRAND TOTAL</b>		<u>\$ 5,652,116</u>

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Cooperative and is presented on the modified accrual basis of accounting unless otherwise noted. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements.

NOTE 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for service provided rather than reimbursement for specific expenditures.

NOTE 3: The total awards to subrecipients are as follows:

	<u>CFDA Numbers</u>	<u>Amount</u>
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	\$ 198,073
The Patient Protection and Affordable Care Act of 2010 - Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	17,400

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