

BITTERROOT VALLEY EDUCATION COOPERATIVE

RAVALLI COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BITTERROOT VALLEY EDUCATION COOPERATIVE

RAVALLI COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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BITTERROOT VALLEY EDUCATION COOPERATIVE

RAVALLI COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

MANAGEMENT BOARD

Tom Korst	Chairperson
Loyd Rennaker	Trustee
John McGee	Trustee
David Whitesell	Trustee
Roger Samples	Trustee
Lance Pearson	Trustee

COOPERATIVE OFFICIALS

Tim Miller	Director
Chris Hughes	Assistant Director
Terri Ward	Clerk/Business Manager
Mike Williams	County Superintendent
Bill Fulbright	County Attorney

**Bitterroot Valley Education Cooperative
Management Discussion and Analysis (MD & A)
For the Year Ended June 30, 2014**

The Director and Business Manager/Clerk of the Bitterroot Valley Education Cooperative have provided this MD & A to give the reader of these statements an overview of the financial position and activities of the Cooperative for the fiscal year ended June 30, 2014.

Using This Financial Report

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

Reporting the Cooperative as a Whole

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

A. The Statement of Net Position shows the "assets" (what is owned), "liabilities" (what is owed) and the "net position" (the resources that would remain if all obligations were settled) of the Cooperative. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

B. The Statement of Activities shows the amounts of program-specific and general Cooperative revenues used to support the Cooperative's various functions.

Governmental Activities - The Cooperative functions include instruction, student services, administration, etc. Local, state and federal revenues support most of these functions of the Cooperative.

Reporting the Cooperative's Most Significant Funds

The fund statements provide detailed information about the funds used by the Cooperative. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of the Cooperative. State law generally requires Cooperatives to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the Cooperative's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

The Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balance are shown for governmental funds such as the interlocal (general) fund, miscellaneous program fund, transportation fund and retirement fund. These funds use the modified accrual basis of accounting and represent the majority of the Cooperative's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the Cooperative wide statements. Most significant differences result from the use of different presentation basis. The Cooperative-wide statements are presented using the accrual bases of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and long-term debt are reported in the Cooperative-wide statements but not in the fund statements.

The Cooperative as a Whole

Net position may serve overtime as a useful indicator of a government's financial position. In the Cooperative, assets exceeded liabilities by \$757,314 as of June 30, 2014. The Cooperative's capital assets are limited to the Cooperative Office building, Preschool building, building improvements and a car. Approximately 91% of the Cooperatives assets are current assets.

**Bitterroot Valley Education
Cooperative Condensed Statement
of Net Position**

	Governmental 2014	Activities 2013	Change
Current and other assets	1,133,927	1,109,844	24,083
Capital assets	109,794	120,545	-10,751
Total assets	\$1,243,721	\$1,230,389	\$13,332
Long-term debt outstanding	481,513	389,866	91,647
Other liabilities	4,894		4,894
Total liabilities	\$486,407	\$389,866	\$96,541
Net position			
Net investment in capital assets	109,794	120,545	-10,751
Restricted	585,675	570,752	14,923
Unrestricted	61,845	149,226	-87,381
Total net position	\$757,314	\$840,523	(\$83,209)

**Bitterroot Valley Education Cooperative
Changes in Net Position**

	2014	2013	Change
Revenues			
<i>Program Revenues (by Major Source)</i>			
Charges for Services	1,256,051	987,036	269,015
Operating Grants and Contributions	1,897,293	2,042,178	-144,885
Capital Grants and Contributions	0	0	0
Total program revenues	\$3,153,344	\$3,029,214	\$124,130
<i>General Revenues (by Major Source)</i>			
Grants and entitlements not restricted to specific programs	82,743	66,011	16,732
Investment earnings	5,573	7,059	-1,486
Miscellaneous (other revenue)	93,630	92,232	1,398
County retirement revenue	229,215	227,449	1,766
Total general revenues	411,161	392,751	18,410
Total revenue	\$3,564,505	\$3,421,965	\$142,540
Program expenses			
Instructional-special education	999,751	1,070,559	-70,808
Supporting services- operations and maint.	46,137	54,009	-7,872
Supporting services- general	2,124,858	1,848,319	276,539
Administration- general	9,905	7,895	2,010
Administration- school	215,669	209,584	6,085
Administration-business	179,503	146,286	33,217
Student transportation	44,592	43,544	1,048
Other current charges	2,977		2,977
Total Expenses	\$3,623,392	\$3,380,196	\$243,196
Excess (deficiency) before special items and transfers	-58,887	41,769	-100,656
Gain (loss) on sale of capital assets	0	0	0
Increase (decrease) in net assets	(\$58,887)	\$41,769	(\$100,656)

The total Cooperative revenues for the fiscal year ended June 30, 2014 were \$3.5 million. The cost of all programs and services was \$3.6 million. Net position was \$757,314 when adjusted for depreciation and compensated absence liability; this represented a decrease of approximately \$83,000 in net position. Participating Districts contributed approximately 13.29% (\$474,000 of the \$3.5 million) of the Cooperative revenues. The remainder was financed through charges for services, operating grants and contributions, and other state revenues.

Analysis of Financial Information

During FY 2014 total Co-op revenues increased by \$142,500. This overall increase in revenues, was a result of increased Related Service (Speech, Occupational Therapy and Physical Therapy) Medicaid billing and billing for Mental Health services offsetting a decrease in revenues from the IDEA B Grant. In FY 2013 the Co-op billed \$104,000 for related services, in FY 2014 the billing increased to \$113,500. Billing for Mental Health services increased from \$911,817 in FY 2013 to \$1,157,114. The majority of the \$245,000 in increased Mental Health revenues can be attributed to new Mental Health teams added in Florence and Lone Rock during FY 2014.

As the number of Mental Health Teams continue to increase, a larger share of administrative time and overhead cost are being allocated to Mental Health and paid for with revenues generated from Mental Health services.

Overall the Cooperative expenses increased by \$243,196, there are several contributing factors to this increase in expenses. Although wages and benefits Co-op wide have increased, the main factor driving the increased expenses is the continued growth and expansion in the Mental Health program. Since FY 2012 the Co-op has added 4 new Mental Health teams. The average cost of a Mental Health team is approximately \$90,000 per year. To support the expanding Mental Health program, additional administrative FTE has been added. To address diminishing IDEA Part B funds, when budgeting for FY2013 the decision was made to reduce both IDEA Part B revenues used by the Cooperative and IDEA Part B funds transferred to member districts to hopefully push back the “fiscal cliff” for a few more years. IDEA funds transferred to member districts in FY 2014 was the same as in FY 2013, \$783,217 but funds allocated to the Co-op to pay special education expenses were reduced from \$253,280 to \$192,027 in FY 2014. The Co-op continues to use more Medicaid revenues received for school based services as well as Medicaid and private insurance revenues generated from Mental Health services were used to pay a larger portion of Cooperative salaries and overhead previously paid with IDEA Part B revenues. Using Medicaid funds to supplement the decreasing IDEA revenues has allowed the Co-op to avoid increasing Maintenance of Effort for the IDEA grants.

Capital Assets

Capital assets net of depreciation for the Cooperative as of fiscal year end June 30, 2014 were \$109,794. Capital assets were decreased by \$10,751 for depreciation. Capital assets are limited to the building, building improvements, car and the copier in the cooperative office.

Debt Administration

At June 30, 2014 the Cooperative had \$107,787 in compensated absences. The current portion of compensated absences is \$17,123.

The only other debt the Cooperative currently has is the OPEB liability of \$373,726 associated with the GASB 45. GASB Statement 45, is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with other (than pension) postemployment benefits (or OPEB).

The Cooperative's Future

Local contribution from member districts, state special education dollars, Medicaid and federal special education dollars comprise the primary funding sources for the Cooperative. Member districts general funds have increased annually by relatively modest percentages. Federal (IDEA) special education revenues have decreased over the past few years. Some Medicaid revenues have increased due to higher parent consent response rates. IDEA revenues have been impacted by federal sequestration cuts. State special education revenues have increased according to inflationary indexes. Yet overall state special education funding has dropped due to enrollment decreases in member districts. Projections for the Bitterroot Valley and special education enrollment are for limited to no growth. Some districts are seeing a declining enrollment. Looking forward, Medicaid revenue is projected to be stable and IDEA funding is uncertain at this time. State special education revenues for FY15 and FY16 will be determined by the Montana State Legislature in the spring of 2015. The Governor's budget includes an inflationary increase for special education. A potential future conflict exists between rising fixed personnel related costs and level funding or reduced funding from state and federal sources. Cooperative reserve funds may be sufficient to alleviate a potential funding shortfall for one to two years before we would be forced to make cutbacks in services without increases or additional supplemental revenues. The largest member school district will be leaving the Cooperative in 2015-16 to provide its own special education services. This will necessitate a reduction in special education staff and possible restructuring of office support staff. The Cooperative will continue to provide school based mental health services to this district.

Contact for Additional Information

If you have questions about this report or need additional information, contact the Bitterroot Valley Education Cooperative Business Manager at the Bitterroot Valley Education Cooperative, P.O. Box 187, Stevensville, MT 59870, and (406) 777-2494 ext.111

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bitterroot Valley Education Cooperative
Ravalli County
Stevensville, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bitterroot Valley Education Cooperative, Ravalli County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bitterroot Valley Education Cooperative, Ravalli County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedule of funding for other post employment benefits other than pensions on pages 2 through 6, and 27 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 Cooperative's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying 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 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 financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2015, on our consideration of the Bitterroot Valley Education Cooperative, Ravalli County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bitterroot Valley Education Cooperative, Ravalli County, Montana's internal control over financial reporting and compliance.

Derring, Downey and Associates, CPA's, P.C.

January 23, 2015

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Statement of Net Position
June 30, 2014

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	908,207
Due from other governments		225,720
Total current assets	\$	1,133,927
Noncurrent assets		
Capital assets - depreciable, net	\$	109,794
Total assets	\$	1,243,721
LIABILITIES		
Current liabilities		
Accounts payable	\$	4,894
Current portion of compensated absences payable		17,123
Total current liabilities	\$	22,017
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	373,726
Noncurrent portion of compensated absences		90,664
Total noncurrent liabilities	\$	464,390
Total liabilities	\$	486,407
NET POSITION		
Net investment in capital assets	\$	109,794
Restricted for special projects		585,675
Unrestricted		61,845
Total net position	\$	757,314

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
<u>Primary government:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
<u>Governmental activities:</u>				<u>Governmental Activities</u>
Instructional - special education	\$ 999,751	\$ 231	\$ 885,650	\$ (113,870)
Supporting services - operations & maintenance	46,137	10,939	30,063	(5,135)
Supporting services - general	2,124,858	1,068,871	764,056	(291,931)
Administration - general	9,905	-	9,752	(153)
Administration - school	215,669	43,754	138,007	(33,908)
Administration - business	179,503	87,664	69,765	(22,074)
Student transportation	44,592	44,592	-	-
Other current charges	2,977	-	-	(2,977)
Total primary government	\$ 3,623,392	\$ 1,256,051	\$ 1,897,293	\$ (470,048)
		General Revenues:		
		Grants and entitlements not restricted to specific programs	\$	82,743
		Investment earnings		5,573
		Miscellaneous (other revenue)		93,630
		County retirement		229,215
		Total general revenues, special items and transfers	\$	411,161
		Change in net position	\$	(58,887)
		Net position - beginning	\$	840,523
		Restatements		(24,322)
		Net position - beginning - restated	\$	816,201
		Net position - end	\$	757,314

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Miscellaneous</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets:				
Cash and investments	\$ 544,539	\$ 331,394	\$ 32,274	\$ 908,207
Due from other governments	-	223,456	2,264	225,720
Total assets	<u>\$ 544,539</u>	<u>\$ 554,850</u>	<u>\$ 34,538</u>	<u>\$ 1,133,927</u>
Current liabilities:				
Accounts payable	\$ 1,181	\$ 3,713	-	\$ 4,894
FUND BALANCES				
Restricted	\$ -	\$ 551,137	\$ 34,538	\$ 585,675
Unassigned fund balance	543,358	-	-	543,358
Total fund balance	<u>\$ 543,358</u>	<u>\$ 551,137</u>	<u>\$ 34,538</u>	<u>\$ 1,129,033</u>

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	1,129,033
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		109,794
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(481,513)
Total net position - governmental activities	\$	<u><u>757,314</u></u>

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Miscellaneous</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local revenue	\$ 491,239	\$ 85,870	\$ 44,592	\$ 621,701
County revenue	-	-	229,215	229,215
State revenue	446,641	1,207,321	-	1,653,962
Federal revenue	-	1,059,627	-	1,059,627
Total revenues	<u>\$ 937,880</u>	<u>\$ 2,352,818</u>	<u>\$ 273,807</u>	<u>\$ 3,564,505</u>
EXPENDITURES				
Instructional - special education	\$ 48,162	\$ 854,551	\$ 5,391	\$ 908,104
Supporting services - operations & maintenance	600	34,786	-	35,386
Supporting services - general	726,719	1,163,471	234,668	2,124,858
Administration - general	-	9,905	-	9,905
Administration - school	100,139	93,537	21,993	215,669
Administration - business	57,580	108,268	13,655	179,503
Student transportation	-	-	44,592	44,592
Other current charges	-	2,611	366	2,977
Total expenditures	<u>\$ 933,200</u>	<u>\$ 2,267,129</u>	<u>\$ 320,665</u>	<u>\$ 3,520,994</u>
Net Change in Fund Balance	<u>\$ 4,680</u>	<u>\$ 85,689</u>	<u>\$ (46,858)</u>	<u>\$ 43,511</u>
Fund balances - beginning	\$ 539,092	\$ 489,356	\$ 81,396	\$ 1,109,844
Restatements	(414)	(23,908)	-	(24,322)
Fund balances - beginning, restated	<u>\$ 538,678</u>	<u>\$ 465,448</u>	<u>\$ 81,396</u>	<u>\$ 1,085,522</u>
Fund balance - ending	<u>\$ 543,358</u>	<u>\$ 551,137</u>	<u>\$ 34,538</u>	<u>\$ 1,129,033</u>

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 43,511
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Depreciation expense	(10,751)
The change in compensated absences is shown as an expense in the Statement of Activities	
	(13,551)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
- Long-term debt principal payments	5,000
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Termination benefits, end of the year	(83,096)
Change in net position - Statement of Activities	\$ <u><u>(58,887)</u></u>

See accompanying Notes to the Financial Statements

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		<u>Agency Funds</u>
ASSETS		
Cash and short-term investments	\$	116,893
Total assets	\$	<u>116,893</u>
LIABILITIES		
Warrants payable	\$	29,944
Accounts payable		<u>86,949</u>
Total liabilities	\$	<u>116,893</u>

See accompanying Notes to the Financial Statements

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cooperative complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the Cooperative complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the Cooperative appointed a voting majority of the component units' board; the Cooperative is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the 2014 complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the 2014.

Primary Government

The Cooperative was created by an interlocal agreement between six school Districts and the County Superintendent of Schools. The Cooperative provides special education services to these Districts. Each District is a member of the advisory board, who is responsible for the operations of the Cooperative. The advisory board hires a director who administers the Cooperative. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the Cooperative is a primary government as defined by GASB Cod. Sec. 2100 and has no component units.

Budgetary Information

A legally adopted budget is not required for the Bitterroot Valley Education Cooperative; though a budget is adopted by the advisory board each fiscal year and the budget adopted of the basic Special Education Program is approved by the State Office of Public Instruction. Because a budget is not legally adopted, a budget comparison schedule is not present in this report. Specific project budgets are approved by the State Office of Public Instruction and this approval establishes budget authority.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function. The Cooperative does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Cooperative generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the Cooperative or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Cooperative defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Charges for current services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue to have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if they are susceptible to accrual criteria met. All other revenue items are considered to be measurable and available only when cash is received by the Cooperative.

Major Funds:

The Cooperative reports the following major governmental funds:

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

Miscellaneous Programs Fund – Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support Cooperative programs are deposited in this fund.

Fiduciary Funds

The Cooperative uses claims and payroll clearing funds.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The Cooperative's cash is held by the County Treasurer and pooled with other County cash. Cooperative cash which is not necessary for short-term obligations, the Cooperative participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2014, consisted of money market, US Government securities, US Treasury Bonds, and mutual funds. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The Cooperative does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Ravalli County deposits and investments is available from Ravalli County Treasurer's office, 215 South Fourth, Suite A, Hamilton, MT 59840-2853. Fair value approximates carrying value for investments as of June 30, 2014. The Ravalli County investment pool is not rated.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

NOTE 3. INVENTORIES

The cost of inventories are recorded as an expenditure when purchased.

NOTE 4. CAPITAL ASSETS

The Cooperative's assets are capitalized at historical cost or estimated historical cost. Cooperative policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	25 years
Improvements	25 years
Equipment	6-10 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Cooperative has no infrastructure to include in the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Buildings	\$ 156,348	\$ -	\$ 156,348
Improvements other than buildings	6,516	-	6,516
Machinery and equipment	41,172	-	41,172
Total other capital assets at historical cost	\$ 204,036	\$ -	\$ 204,036
Less: accumulated depreciation	\$ (83,491)	\$ (10,571)	\$ (94,062)
Total	\$ 120,545	\$ (10,571)	\$ 109,974

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:
Supporting services – operations and maintenance \$ 10,751

NOTE 5. OPERATING LEASE COMMITMENTS

In July 1998, the Cooperative entered into a land lease with Stevensville School District by which the land is to be used for administrative offices. The lease began in fiscal year 1998 and provides for payments in the first five years of the lease of \$400 annually. For the remaining twenty years of the lease, annual payments of \$500 are required. Lease payments began in the 1998 fiscal year.

Because the lease is a financing agreement which does not transfer ownership of the classroom to the Cooperative at the end of the lease term, the Cooperative has not recorded the lease obligation or capitalized the related cost of the structure in its financial statements.

Future minimum lease payments are \$500 annually through 2023.

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide financial statements, outstanding debt is reported as liabilities.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Compensated absences	\$ 94,236	\$ 13,551	\$	\$ 107,787	\$ 17,123
Other post-employment benefits*	295,630	83,096	(5,000)	373,726	-
Total	<u>\$ 389,866</u>	<u>\$ 96,647</u>	<u>\$ (5,000)</u>	<u>\$ 481,513</u>	<u>\$ 17,123</u>

*See Note 7

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Compensated Absences

Non-teaching Cooperative employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

The liability associated with governmental fund-type employees is reported in the governmental-type activities.

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$ 403,078
Actuarial value of plan assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 403,078
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,563,559
UAAL as a percentage of covered payroll	25.78%

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

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Annual Required Contribution (ARC)	\$ 83,096
Interest on net OPEB obligation	\$ -
Adjustment to ARC	\$ -
Annual OPEB cost (expense)	\$ 83,096
Contributions made	\$ -
Increase in net OPEB obligation	\$ 83,096
Net OPEB obligation - beginning of year	\$ 290,630
Net OPEB obligation - end of year	\$ 373,726

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

	Unit Credit Cost	
Actuarial cost method	Method	
Average age of retirement (based on historical data)		62
Discount rate (average anticipated rate)		2.25%
Average salary increase (Consumer Price Index)		2.80%

<u>Year</u>	<u>% Increase</u>
2012	3.8%
2013	4.0%
2014	7.8%
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and thereafter	6.9%

NOTE 8. STATE-WIDE RETIREMENT PLANS

The Cooperative participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement Plan (TRS), and substantially all other Cooperative employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	7.80%	8.47%
Employee	7.90%*	8.15%
State	0.37%	2.49%

* For PERS members hired prior 7/1/2011 that rate is 6.90%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the Cooperative's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The Cooperative's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2012	\$ 5,357	\$ 107,524
2013	\$ 5,483	\$ 115,077
2014	\$ 6,579	\$ 146,226

NOTE 9. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

For committed fund balance the government's highest level of decision-making authority is the executive board and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a board resolution.

For assigned fund balance the body or official authorized to assign amounts to a specific purpose is Director and the policy established by the governing body pursuant to which that authorization is given is Executive Board.

BITTERROOT VALLEY EDUCATION COOPERATIVE
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

The Cooperative considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The Cooperative considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Miscellaneous	\$ 551,137	Third party restriction imposed by grant terms
All other aggregate:		
	1,550	Transportation services
	<u>32,988</u>	Employer retirement benefits for staff
Total	<u>\$ 585,675</u>	

NOTE 10. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Miscellaneous	\$ (3,176)	Prior period Medicaid revenue adjustment
Miscellaneous	(20,732)	Prior period Youth Enhancement Program revenue adjustment
General	<u>(414)</u>	Prior period Local and State revenue adjustment
	<u>\$ (24,322)</u>	

NOTE 11. RISK MANAGEMENT

The Cooperative faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the Cooperative has no coverage for potential losses from environmental damages.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Bitterroot Valley Education Cooperative
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 325,879	\$ 325,879	0%	\$ 1,318,573	24.7%
July 1, 2012	\$ -	\$ 403,078	\$ 403,078	0%	\$ 1,563,559	25.8%

SINGLE AUDIT SECTION

Bitterroot Valley Education Cooperative, Ravalli County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditure June 30, 2014
<u>U.S. Department of Education</u>			
<i>Passed through Montana Office of Public Instruction:</i>			
IDEA Part B	84.027	041-9690-7714	\$ 975,244
IDEA Part B	84.027	041-9690-7714-INST	40,317
IDEA Preschool	84.173	041-9690-7914	44,066
Total U.S. Department of Education			\$ <u>1,059,627</u>
Total Federal Financial Assistance			\$ <u>1,059,627</u>

N/A = Not Applicable or Not Available

BITTERROOT VALLEY EDUCATION COOPERATIVE

RAVALLI COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bitterroot Valley Education Cooperative, Ravalli County, Montana, and is presented on the modified accrual basis of accounting. The information in 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 preparation of, the basic financial statements.

Federal Awards Received as a Pass-Through Entity

Amount of IDEA Part B passed through to subrecipients	\$783,217
Amount of IDEA Preschool passed through to subrecipients	\$24,066

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Bitterroot Valley Education Cooperative
Ravalli County
Stevensville, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bitterroot Valley Education Cooperative, Ravalli County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Bitterroot Valley Education Cooperative's basic financial statements and have issued our report thereon dated January 23, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Denning, Downey and Associates, CPA's, P.C.

January 23, 2015

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

Board of Trustees
Bitterroot Valley Education Cooperative
Ravalli County
Stevensville, Montana

Report on Compliance for Each Major Federal Program

We have audited Bitterroot Valley Education Cooperative, Ravalli County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Bitterroot Valley Education Cooperative's major federal programs for the year ended June 30, 2014. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Bitterroot Valley Education Cooperative, Ravalli County, Montana 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, we considered the 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 our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

Derring, Downey and Associates, CPA's, P.C.

January 23, 2015

BITTERROOT VALLEY EDUCATION COOPERATIVE

RAVALLI COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes