

**GALLATIN-MADISON COUNTY  
Special Education Cooperative**

**FINANCIAL AND COMPLIANCE REPORT  
Year Ended June 30, 2014**

**GALLATIN-MADISON COUNTY  
Special Education Cooperative**

**FINANCIAL AND COMPLIANCE REPORT  
Year Ended June 30, 2014**

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**GALLATIN-MADISON COUNTY  
Special Education Cooperative**

**ORGANIZATION**

June 30, 2014

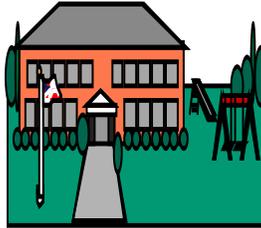
**MEMBER DISTRICTS**

Anderson  
Amsterdam  
Cottonwood  
Ennis  
Gallatin Gateway  
Harrison  
Lamotte  
Malmborg  
Monforton  
Ophir  
Pass Creek  
Springhill  
West Yellowstone  
Willow Creek

**ADMINISTRATION**

Michelle Halberg  
Terri McCollim-Hall

Director  
Clerk



**GALLATIN-MADISON CO. SPECIAL  
EDUCATION COOPERATIVE**  
P.O. BOX 162 (Mailing Address)  
21000 Frontage Rd., Belgrade, MT 59714  
PHONE: (406) 388-6508 / FAX: (406) 388-4824

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*SERVING SCHOOL DISTRICTS IN GALLATIN  
& EASTERN MADISON COUNTIES*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

This Management Discussion and Analysis provides an overview of the Special Education Cooperative's financial activities for the fiscal year ended June 30, 2014. Please read it along with the Cooperative's financial statements which begin on page 4.

**FINANCIAL HIGHLIGHTS**

In summary, overall volume increased while financial position decreased. This is reflective of the increased demand for higher needs services.

- ◆ Net Position was \$ 212,141.
- ◆ Net Position decreased by 9%.

**USING THIS ANNUAL REPORT**

This annual report consists of financial statements for the Cooperative as a whole with more detailed information for certain Cooperative funds. The Statement of Net Position and the Statement of Activities (pages 4 and 5) provide information about the activities of the Cooperative as a whole and present a long-term view of the Cooperative's finances (they include capital assets and long-term liabilities).

Fund financial statements present a short-term view of the Cooperative's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the Cooperative's general fund.

**THE SPECIAL EDUCATION COOPERATIVE AS A WHOLE**

One important question asked about the Cooperative's finances is, "Is the Cooperative better or worse off as a result of this year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the basis of accounting used by most private-sector companies.

The change in Net Position (the difference between total assets & deferred outflows of resources and total liabilities & deferred inflows of resources) over time is one indicator of whether the Cooperative's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the Cooperative's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, etc. to assess the overall health of Gallatin-Madison County Special Education Cooperative.

Changes in the Cooperative's net position were as follows:

	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>%</b>
Total assets and deferred outflows	224,259	240,364	(\$16,105)	(7)%
Total liabilities and deferred inflows	(12,118)	(7,592)	(4,526)	60%
Net Position	<u>\$212,141</u>	<u>\$232,772</u>	<u>(\$20,631)</u>	(9)%
Net Position consist of:				
Invested in Capital Assets	40,642	34,567	6,075	18%
Restricted	18,365	12,412	5,953	48%
Unrestricted	153,134	185,793	(32,659)	(18)%
	<u>\$212,141</u>	<u>\$232,772</u>	<u>(\$20,631)</u>	(9)%

Changes in the Cooperative's revenues were as follows:

	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>%</b>
Program Revenues:				
IDEA - Preschool	10,377	11,609	(1,232)	(11)%
Total Program Revenues	<u>10,377</u>	<u>11,609</u>	<u>(1,232)</u>	(11)%
General Revenues:				
District Contributions	90,094	84,025	6,069	7%
State Special Education	187,272	198,812	(11,540)	(6)%
Other State Funding	19,706		19,706	
Medicaid Reimbursement	85,108	82,315	2,793	3%
County Taxes through Districts	43,452	37,702	5,750	15%
Federal - IDEA B	400,959	450,000	(49,041)	(11)%
Interest	983	1,689	(706)	(42)%
Other	495		495	
Total General Revenue	<u>828,069</u>	<u>854,543</u>	<u>(26,474)</u>	(3)%
Total Revenue	<u>\$838,446</u>	<u>\$866,152</u>	<u>(\$27,706)</u>	(3)%

Changes in the Cooperative's expenses were as follows:

	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>%</b>
Instruction	\$86,159	\$47,827	\$38,332	80%
Support Services- Students	412,655	442,196	(29,541)	(7)%
General Administration	128,087	192,869	(64,782)	(34)%
Business Administration	15,549	15,843	(294)	(2)%
Operation and Maintenance	19,623	19,165	458	2%
Transfers to Member Districts	186,079	177,575	8,504	5%
Depreciation	10,925	11,145	(220)	(2)%
Total	<u>\$859,077</u>	<u>\$906,620</u>	<u>(\$47,543)</u>	(5)%

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the most significant of the Cooperative's funds; the Cooperative is required to provide detailed information for its "major" funds.

Major funds are defined as the general fund and other funds where the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% of total governmental fund amounts. All Cooperative funds are, by definition, major.

The governmental funds provide a short-term view of the Cooperative's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Debt administration consists of accruing and paying sick and vacation leave, and making payments on Cooperative vehicles.

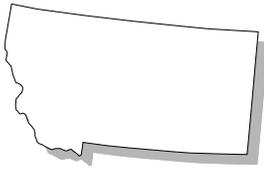
## **THE FUTURE OF THE GALLATIN-MADISON COUNTY SPECIAL EDUCATION COOPERATIVE**

The number of students served by the Special Education Cooperative has declined slightly at about the same rate as enrollment of the member districts. However, the services required have been more expensive and demand for services relative to student population has increased.

Funding at the federal level will possibly be impacted by Federal budget issues. At the state level it appears that funding will remain stable.

School districts will continue to be required to comply with the mandates of the *Individuals with Disabilities Education Act* .

In summary it seems that the future of the Gallatin-Madison County Special Education Cooperative is relatively secure, barring the exodus of member districts.



# ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

## INDEPENDENT AUDITOR'S REPORT

Honorable Council Members  
Gallatin-Madison County  
Special Education Cooperative

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Gallatin-Madison County Special Education Cooperative, Belgrade, 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 an opinion 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 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 Cooperative'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 Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

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

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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.

*Prior-Year Comparative Information*

We have previously audited Gallatin Madison County Special Education Cooperative's June 30, 2013 financial statements, and we expressed an unmodified opinion on in our report dated November 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it was derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015 on our consideration of the 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 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 Gallatin-Madison County Special Education Cooperative's internal control over financial reporting and compliance.

February 6, 2015



Ross R. Stalcup  
Certified Public Accountant

**GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE**

**Statement of Net Position  
June 30, 2014**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets		
Cash and Investments	\$141,431	\$193,843
Due From Other Governments	42,186	11,954
Total Current Assets	<u>183,617</u>	<u>205,797</u>
Non-current Assets		
Capital Assets		
Net of Accumulated Depreciation	40,642	34,567
Total Non-current Assets	<u>40,642</u>	<u>34,567</u>
Total Assets	<u>224,259</u>	<u>240,364</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows	<u>224,259</u>	<u>240,364</u>
 <b>Liabilities</b>		
Current Liabilities		
Compensated Absences	4,039	2,531
Total Current Liabilities	<u>4,039</u>	<u>2,531</u>
Non-current Liabilities:		
Compensated Absences	8,079	5,061
Total Liabilities	<u>12,118</u>	<u>7,592</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>
Total Liabilities and Deferred Inflows	<u>12,118</u>	<u>7,592</u>
 <b>Net Position</b>	<u>212,141</u>	<u>232,772</u>
 Net Investment in Capital Assets	40,642	34,567
Restricted	18,365	12,412
Unrestricted	<u>153,134</u>	<u>185,793</u>
Total Net Position	<u><u>\$212,141</u></u>	<u><u>\$232,772</u></u>

See Notes to Financial Statements

**GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE**

**Statement of Activities  
Year Ended June 30, 2014**

	Expenses	Operating Grants	2014	2013
Government Operations:				
Special Education:				
Instruction	(\$86,159)		(\$86,159)	(\$47,827)
Support Services				
Students	(412,655)	\$10,377	(402,278)	(430,587)
General Administration	(128,087)		(128,087)	(192,869)
Business Administration	(15,549)		(15,549)	(15,843)
Operation and Maintenance	(19,623)		(19,623)	(19,165)
Student Transportation	0		0	0
Transfers to Member Districts	(186,079)		(186,079)	(177,575)
Depreciation	(10,925)		(10,925)	(11,145)
<b>Total</b>	<b>(\$859,077)</b>	<b>\$10,377</b>	<b>(848,700)</b>	<b>(895,011)</b>
General Revenues:				
IDEA Part B			400,959	450,000
State Special Education Funding			187,272	198,812
Other State Funding			19,706	
County Taxes through Districts			43,452	37,702
Member District Assessments			90,094	84,025
Medicaid			85,108	82,315
Other			495	
Interest			983	1,689
<b>Total General Revenues</b>			<b>828,069</b>	<b>854,543</b>
Change in Net Position			(20,631)	(40,468)
Net Position July 1			232,772	273,240
Net Position June 30			<b>\$212,141</b>	<b>\$232,772</b>

See Notes to Financial Statements

**GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE**

**Balance Sheet - Governmental Funds  
Year Ended June 30, 2014**

	<u>MAJOR FUNDS</u>			<u>Total</u>
	<u>General</u>	<u>Retirement</u>	<u>Miscellaneous</u>	
Assets				
Cash and Investments	\$91,081	\$18,365	31,985	141,431
Due from Other Governments			42,186	42,186
Other				0
<b>Total</b>	<b>91,081</b>	<b>18,365</b>	<b>74,171</b>	<b>183,617</b>
Deferred Outflows of Resources	0	0	0	0
<b>Total Assets and Deferred Outflows</b>	<b>91,081</b>	<b>18,365</b>	<b>74,171</b>	<b>183,617</b>
Liabilities	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred Inflows of Resources	0	0	0	0
<b>Total Liabilities and Deferred Inflows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Fund Balance				
Restricted		18,365		18,365
Assigned			74,171	74,171
Unassigned	91,081			91,081
<b>Total</b>	<b>91,081</b>	<b>18,365</b>	<b>74,171</b>	<b>183,617</b>
<b>Total Liabilities &amp; Deferred Inflows and Fund Balance</b>	<b>\$91,081</b>	<b>18,365</b>	<b>74,171</b>	<b>\$183,617</b>

**RECONCILIATION TO STATEMENT OF NET POSITION**

Fund Balance from above	\$183,617
Net Capital Assets	40,642
Less Liabilities not included above:	
Compensated Absences	(12,118)
Net Position	<u>\$212,141</u>

See Notes to Financial Statements

**GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE  
Statement of Revenues, Expenditures, and Change in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2014**

	<b>MAJOR FUNDS</b>			
	<b>General</b>	<b>Retirement</b>	<b>Miscellaneous</b>	<b>Total</b>
Revenues:				
Local Sources				
District Assessments	\$90,094			\$90,094
Interest	797	186		983
Other	495			495
Intergovernmental				
Medicaid Reimbursement			85,108	85,108
County Sources		43,452		43,452
State Sources	206,978			206,978
Federal Sources			411,336	411,336
Total Revenues	<u>298,364</u>	<u>43,638</u>	<u>496,444</u>	<u>838,446</u>
Expenditures:				
Instruction	64,454	8,411	13,294	86,159
Support Services-				
Students	229,359	29,274	149,496	408,129
General administration			128,087	128,087
Business Administration			15,549	15,549
Operation and Maintenance			19,623	19,623
Capital Outlay			17,000	17,000
Distribution to Member Districts			186,079	186,079
Total Expenditures	<u>293,813</u>	<u>37,685</u>	<u>529,128</u>	<u>860,626</u>
Excess of Revenues over Expenditures	4,551	5,953	(32,684)	(22,180)
Fund Balance July 1	<u>86,530</u>	<u>12,412</u>	<u>106,855</u>	<u>205,797</u>
Fund Balance June 30	<u><u>\$91,081</u></u>	<u><u>\$18,365</u></u>	<u><u>\$74,171</u></u>	<u><u>\$183,617</u></u>

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES**

Change in Fund Balance	(\$22,180)
Capital Assets	17,000
Depreciation	(10,925)
Change in Compensated Absences	(4,526)
Change in Net Position	<u><u>(\$20,631)</u></u>

See Notes to Financial Statements

**GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE**

**Notes to The Financial Statements  
June 30, 2014**

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Notes to Financial Statements (continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

Gallatin-Madison County Special Education Cooperative was established under Montana law to provide educational services to member school districts located in Gallatin and Madison counties. The Cooperative is administrated by the Cooperative Council, which hires a director and other personnel who are responsible to the Council.

Member Districts' Related Services Block Grant plus entitlements are paid by the State of Montana directly to the Cooperative, via the Gallatin County Treasurer's office. The districts are also assessed based on budgetary requirements and special education funding requirements.

The financial statements include all of the Cooperative's operations controlled by the Cooperative Council. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the Cooperative is considered to be an independent reporting entity and has no component units.

B. Basis of Presentation and Basis of Accounting

**Government-wide Statements** - The statement of net position and the statement of activities show information about the overall financial position and activities of the Cooperative.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Cooperative are generally financed through district contributions, state special education funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

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

Notes to Financial Statements (continued)

**Fund Financial Statements** - These statements provide information about the Cooperative's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column.

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid.

Under the terms of the Cooperative's grant agreements, certain programs are funded by specific cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues. The Cooperative's general policy is to use restricted resources before using unrestricted resources.

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other governmental funds whose assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% or more of the total for all government funds also be reported as major funds.

Accordingly, the Cooperative reports the following major governmental funds:

General fund

This fund 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 fund

This fund is used to account for grant revenues and their uses.

Retirement fund

This fund accounts for the Gallatin-Madison County Special Education Cooperative's contribution to social security, retirement systems, and unemployment compensation for its employees.

**Required Supplemental Information:**

Budget to actual information has not been presented because the Cooperative is not legally required to adopt a budget.

The general policy is to spend resources in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

Notes to Financial Statements (continued)

C. Cash and Investments

State law permits investment of Cooperative funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State's unified investment program. Except for the expendable trust funds, all cash and investments are held by the County Treasurer. Investments are stated at estimated fair value which approximates cost.

D. Inventories

Inventories are considered to be immaterial and are not recorded.

E. Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Vehicles. . . . . 7 years

F. Compensated Absences

Vacation leave, within certain limitations, may be payable to administrative and classified (non-teaching) employees on termination. Sick leave is accumulated for classified employees at the rate of 12 working days for each year of service. Part-time classified employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Classified employees are eligible for compensation at one fourth of the accumulated sick leave amount on termination.

G. Use of Estimates

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

Examples are depreciation and current portion of compensated absences.

H. Deferred Inflow/Outflow of Resources

A *deferred outflow* of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and a *deferred inflow* of resources as an acquisition of net position by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred inflow of resources has a negative effect on net position, similar to liabilities.

Notes to Financial Statements (continued)

**2. CASH AND INVESTMENTS**

The Cooperative participates in the Gallatin County Treasurer's investment program. Funds deposited with the County Treasurer are pooled and invested in accordance with State law. Funds are withdrawn from the investment program as needed to pay warrants. Earnings are allocated to the Cooperative based on average month-end cash balances and are distributed monthly.

It is not practical to determine the investment risk, collateral, or insurance coverage for the Cooperative's share of these pooled investments. Information about the pooled investments is included in the County's annual financial statements.

GASB 40 disclosures:

The Cooperative does not have policies regarding credit risk, interest rate risk, or custodial credit risk, but relies on State law for allowable investments. Investment risk disclosures are described in the following paragraphs:

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a security may default in making timely principal and interest payments. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Notes to Financial Statements (continued)

**3. CAPITAL ASSETS**

Capital asset activity during 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost of assets:				
Vehicles	\$96,989	\$17,000		\$113,989
Total	96,989	17,000	0	113,989
Accumulated depreciation:				
Vehicles	62,422	10,925		73,347
Total	\$62,422	\$10,925	\$0	\$73,347
Net	\$34,567	\$6,075	\$0	\$40,642

Depreciation is unallocated.

**4. LONG-TERM DEBT**

Changes in general long-term debt during 2014 are as follows:

	Balance June 30, 2013	Additions	(Reductions)	Balance June 30, 2014	Due Within One Year
Compensated Absences	\$7,592	\$4,526		\$12,118	\$4,039

\*One third of the total is estimated to be current.

Notes to Financial Statements (continued)

**5. RETIREMENT PLANS**

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

Contribution rates for both plans are required and determined by State law. There were no changes to the plans or the required contribution rates in 2014. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
TRS	8.47%	8.15%	2.110%	18.73%
PERS	7.80%	7.90%	0.370%	16.07%

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

	2012	2013	2014
TRS	\$45,719	\$107,471	\$59,195
PERS	4,847	5,671	6,733
Total	<u>\$50,566</u>	<u>\$113,142</u>	<u>\$65,928</u>

The State of Montana contributes .1% of employee payroll as an on-behalf payment. The Cooperative does not record this as required by generally accepted accounting principles.

## Notes to Financial Statements (continued)

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

MT Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, Montana 59620-0139  
Telephone (406) 444-3134

MT Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, Montana 59620-0131  
Telephone (406) 444-3154

### **6. RISK MANAGEMENT**

The Cooperative faces a number of risks including:

- loss or damage to property
- general liability
- workers compensation
- employee medical insurance

Commercial insurance policies are purchased for loss or damage to property, general liability, and health insurance.

The Cooperative participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 schools participate in WCRRP. All school participants in this pool are jointly and severally liable for the liabilities of this public risk pool.

The pool issues audited financial statements. Information about the amount of claim liabilities, changes in claims liabilities, amount of claims paid, operating results and other information is available at:

WCRRP  
1 South Montana Avenue  
Helena, Montana 59601

### **7. OTHER POST EMPLOYMENT BENEFITS**

Gallatin-Madison County Special Education Cooperative did not obtain a valuation of Other Post Employment Benefits (OPEB) because the Cooperative determined it was not relevant as follows:

OPEB at the Cooperative would be derived from an implicit rate subsidy, as defined in Governmental Accounting Standards Board Statement No. 45, which is specifically contingent on participation by retired employees.

An analysis of plan participation covering the last 20 years resulted in a plan participation rate that was essentially non-existent (one employee for 8 months in 20 years).

## 8. FUND BALANCE/NET POSITION DISCLOSURES

Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued to enhance the usefulness of Fund Balance information and to clarify existing governmental fund type definitions. To that end GASB 54 established the following fund balance classifications:

**Non-spendable:**

Includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Inventory is a principal example.

**Restricted:**

Includes fund balances that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to law, constitutional provisions or enabling legislation.

**Committed:**

Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year end.

**Assigned:**

Includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed. Fund balance is assigned by Cooperative management.

**Unassigned:**

Includes positive fund balance within the General Fund which has not been classified within the above mentioned classifications. Negative fund balances in other governmental funds are to be reported as unassigned.

Additionally the statement addresses fund classification to the extent that the fund type is dependent on proceeds of specific revenue sources which are restricted or committed to expenditure in accordance with a specific purpose.

Additionally the Cooperative has a general policy that resources will be spent in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

The Cooperative has a general policy that fund balance is restricted for the statutory purpose of a fund or by the grant agreements.

Also, with regard to fund type classification, any statutory special revenue fund that has revenue flow that is not restricted to a purpose will be combined with the General fund for reporting purposes. This does not apply to budgetary basis reporting.

Notes to Financial Statements (continued)

8. FUND BALANCE/NET POSITION DISCLOSURES (continued)

GALLATIN-MADISON COUNTY  
SPECIAL EDUCATION COOPERATIVE

NOTES TO THE BASIC FINANCIAL STATEMENTS  
Fiscal Year Ending June 30, 2014

Fund Balance Classifications - GASB 54 requires presentation of governmental fund balances by specific purpose. In the basic financial statements the fund balance classifications are presented in the aggregate. The table below displays the fund balances by major purpose.

	MAJOR FUNDS			Total
	General Fund	Miscellaneous	Retirement	
<b>FUND BALANCES</b>				
<b>Non-Expendable:</b>				0
<b>Spendable Fund Balance:</b>				
<b>Restricted for:</b>				
Retirement Benefits			18,365	18,365
<b>Assigned to:</b>				
Special Education		74,171		74,171
<b>Unassigned:</b>	91,081			91,081
<b>Total Fund Balance:</b>	<u>\$91,081</u>	<u>\$74,171</u>	<u>\$18,365</u>	<u>\$183,617</u>

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

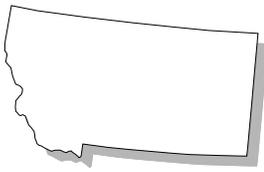
Invested in Capital Assets, net of related debt. Composed of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any debt incurred that is attributable to the acquisition thereof.  
Restricted. Further classified as expendable and non-expendable, generally the net position resulting from property taxes levied for a statutory purpose.  
Unrestricted. All other assets.

**Net Position Classifications:**

Restricted		
Non expendable		\$0
Expendable		18,365
Invested in Capital Assets		40,642
Unrestricted		153,134
		<u>\$212,141</u>

A reconciliation of Fund Balance by classification to restricted net position by classification follows:

	Capital Assets (Net)	Compensated Absences	Adjustments	Net Position
<b>Fund Balances</b>				
Non Expendable				0
Restricted	18,365			18,365
Invest Capital Assets		40,642		40,642
Assigned	74,171		(74,171)	0
Unassigned	91,081		(91,081)	0
Unrestricted			(12,118)	153,134
<b>Total</b>	<u>\$183,617</u>	<u>\$40,642</u>	<u>(\$12,118)</u>	<u>\$212,141</u>



# ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

**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**

Honorable Council Members  
Gallatin-Madison County  
Special Education Cooperative

We have audited the financial statements of the governmental activities, and each major fund of Gallatin-Madison County Special Education Cooperative, Belgrade, Montana as of and for the year ended June 30, 2014, which collectively comprise Gallatin-Madison County Special Education Cooperative's basic financial statements and have issued our report thereon dated February 6, 2015. 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.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gallatin-Madison County Special Education Cooperative's internal control over financial as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin-Madison County Special Education Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gallatin-Madison County Special 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. (Finding No. 2014-01) We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Finding No. 2014-02) *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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gallatin-Madison County Special 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*.

## **Gallatin-Madison County Special Education Cooperative's Response to Findings**

Gallatin-Madison County Special Education Cooperative's response to the findings identified in our audit is described in the accompanying Management's Response to Findings. Gallatin-Madison County Special Education'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.

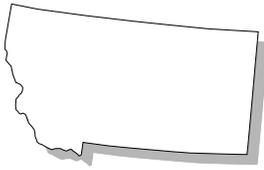
## **Purpose of this Report**

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.

February 6, 2015



Ross R. Stalcup  
Certified Public Accountant



# ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

## INDEPENDENT AUDITOR'S REPORT ON GALLATIN-MADISON COUNTY SPECIAL EDUCATION COOPERATIVE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### SECTION I SUMMARY OF AUDITORS RESULTS

1. The independent auditors report on the financial statements expressed an unqualified opinion.
2. The audit disclosed one significant deficiency and one material weakness in internal control over financial reporting.
3. The audit disclosed no material noncompliance matters in relation to the financial statements.

### SECTION II FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS

#### 2014-01 Internal Control over Financial Reporting

Criteria:	Auditing Standards (SAS 115) require that entities have internal control procedures over the preparation of their financial statements in accordance with US GAAP.
Condition:	The Cooperative does not have the ability to prepare financial statements in accordance with requirements.
Context:	The Cooperative financial statements are prepared by the external auditor.
Effect:	A material weakness in internal control over reporting.
Cause:	The scale of the Cooperative's operations and legally required frequency of its audits make this requirement impractical to comply with.
Recommendation:	We recommend the Cooperative's management take this matter under consideration.

#### 2014-02 Segregation of Duties

Criteria:	Segregation of duties is essential for internal control.
Condition:	The Cooperative does not have ideal segregation of duties.
Context:	The Cooperative has one employee assigned to the accounting function.
Effect:	Internal control is not optimal.
Cause:	The small staff of the Cooperative does not allow for ideal segregation of duties.
Recommendation:	We recommend the Cooperative's Director and Board take an active role so that compensating controls exist and that they monitor the Cooperative's activities.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued**

Page 2 of 2

**SECTION III – STATUS OF PRIOR YEAR FINDINGS**

IC 13-01 INTERNAL CONTROL OVER FINANCIAL REPORTING (recurring 14-01)

IC 13-02 SEGREGATION OF DUTIES (recurring 14-02)

February 6, 2015



Ross R. Stalcup  
Certified Public Accountant



**GALLATIN-MADISON CO. SPECIAL  
EDUCATION COOPERATIVE**

P.O. BOX 162 (Mailing Address)  
21000 Frontage Rd., Belgrade, MT 59714  
PHONE: (406) 388-6508 / FAX: (406) 388-4824

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*SERVING SCHOOL DISTRICTS IN GALLATIN  
& EASTERN MADISON COUNTIES*

October 30, 2014

Dept. of Administration  
Audit Review Program  
P.O. Box 200547  
Helena, MT 59620-0547

To Whom It May Concern:

An audit of the internal affairs of the Gallatin-Madison Special Education Cooperative has been completed for the year ending June 30, 2014. Listed below are the audit exceptions and the related corrective actions, which will be enacted by the Cooperative administration and management board.

**Current Year  
Internal Control Findings  
14-01 Internal Contract Over Financial Reporting**

Statement of Auditing Standards 115 requires that the Cooperative have someone with the qualifications and training to apply generally accepted accounting principles in recording transactions and preparing financial statements. Recommendation was made that the Cooperative council and management take this matter under consideration.

**Response:**

As stated in the audit report, the scale of the Cooperative financial operations makes this requirement impractical to comply with. The Cooperative administration and management board will continue to consider this matter and will make every effort to ensure that internal control procedures regarding the process of recording transactions and preparing financial statements are performed to the highest standards possible.

## **14-02 Segregation of Duties**

Recommendation was made "...that the Director and Cooperative Council take an active role so that compensating controls exist, and that they monitor the Cooperative's activities."

### **Response:**

As stated in the audit report, ideal segregation of duties is not always possible in an organization with a small staff as is the case with the Cooperative. We will continue to take an active role to ensure that as much as possible, compensation controls exist with regard to the fiscal management of the Cooperative.

### **Prior Year**

**13-01 Internal Control Over Financial Reporting recurring see 14-01**

**13-02 Segregation of Duties recurring see 14-02**

As Director, I hope that these corrective actions adequately address the audit exceptions cited in the audit report.

Sincerely,

Michelle Halberg, Director  
Gallatin-Madison Cooperative

MH;tem

cc: Ross Stalcup, CPA

