

SANDERS COUNTY EDUCATIONAL SERVICES COOPERATIVE

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

SANDERS COUNTY EDUCATIONAL SERVICES COOPERATIVE

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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SANDERS COUNTY EDUCATIONAL SERVICES COOPERATIVE

SANDERS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD MEMBERS**

Kevin Meredith	Chairperson
Joshua Patterson	Member
Daisy Carlsmith	Member
Judy McKay	Member
Jason Slater	Member

**COOPERATIVE ADMINISTRATION**

Merle J. Farrier	Director
Dianne Zimmerman	Business Manager
Carol Turk	County Superintendent
Robert Zimmerman	County Attorney

## **Management Discussion and Analysis (MD&A)**

The Sanders County Educational Services Cooperative has provided this Management Discussion and Analysis to give the reader of these statements an overview of the financial position and activities of the Special Ed. Coop. for the year covered by this audit report.

### ***Using This Annual 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 stated below.*

### ***Reporting the Cooperative as a whole***

The Statement of Net Position and the Statement of Activities report information about the Coop. as a whole and about its activities. These statements include all assets and liabilities of the Coop using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Activities that are fiduciary in nature are not included in these statements.

The Statement of Net Position shows assets and liabilities with the difference between the two reported as *net* position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Coop. is improving or deteriorating.

The Statement of Activities reports Program Revenues from federal and state sourced operating grants as well as local district contributions used to support the Coop's various functions. This statement also presents information showing how the Cooperative's net position changed during the most recent fiscal year.

***Governmental Activities* - Governmental activities of the Cooperative include general, school, and finance administrative, regular and special education instruction, general support services, and operations and maintenance.**

### ***The Cooperative's Most Significant Funds***

The Coop., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-regulated legal requirements.

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 Cooperative. State law generally requires Coops. to segregate money generated for certain specific purposes, like federal, general and retirement programs, in separate fund accounts.

The Fund Statements report balances and activities of the most significant, or "major" funds, separately and combine the 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 Coop.'s operations, and the existence of legal budget requirements.

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

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Retirement, and Miscellaneous Funds. These three funds are considered to be major funds.

**Budget-to-Actual Comparisons**

**Budgetary comparisons show how actual expenditures compare to the original and final budgeted expenditures for the Retirement, Miscellaneous and General funds. No significant variances between the original and final expenditure budget were noted.**

***Comparison of Financial Activities Based on Prior Year(s)***

Net Position and Changes in Net Position contain a comparison of current fiscal year data to the prior year.

**Table 1 - Net Position**

	<b>Governmental Activities</b>		
	<b><u>FY14</u></b>	<b><u>FY13</u></b>	<b><u>Change Inc (Dec)</u></b>
Current and other assets	\$ 364,368	\$ 331,962	\$ 32,406
Capital assets	26,667	12,000	14,667
Total assets	391,035	343,962	47,073
Long-term debt outstanding	\$ 42,955	\$ 42,273	\$ 682
Total liabilities	42,955	42,273	682
Net investment in capital assets	26,667	12,000	14,667
Restricted	213,804	186,016	27,788
Unrestricted (deficit)	107,609	103,673	3,936
Total net position	\$ 348,080	\$ 301,689	\$ 46,391

**Table 2 - Changes in Net Position**

	<b>Governmental Activities</b>		
	<u><b>FY14</b></u>	<u><b>FY13</b></u>	<u><b>Change Inc (Dec)</b></u>
<b>Revenues</b>			
<i>Program revenues (by major source):</i>			
Operating grants and contributions	\$426,626	\$ 481,246	\$(54,620)
<i>General revenues (by major source):</i>			
Grants and entitlements not restricted to specific programs	-	11,408	(11,408)
Other state grants	11,691	-	11,691
Investment earnings	504	791	(287)
Miscellaneous (other revenue)	-	861	(861)
County retirement	15,855	25,770	(9,915)
<b>Total revenues</b>	<b>\$454,676</b>	<b>\$ 520,076</b>	<b>\$(65,400)</b>
<b>Program expenses</b>			
Instructional - regular	\$ 682	\$ -	\$ 682
Instructional - special education	95,434	157,772	(62,338)
Supporting services – operations and maintenance	1,879	342	1,537
Supporting services - general	249,158	234,367	14,791
Supporting services – educational media services	9,569	5,630	3,939
Administration - general	5,381	5,980	(599)
Administration - school	40,700	95,751	(55,051)
Administration – business	1,149	1,512	(363)
Unallocated depreciation	4,333	-	4,333
<b>Total expenses</b>	<b>\$408,285</b>	<b>\$ 501,354</b>	<b>\$(93,069)</b>
Excess (deficiency) before special items and transfers	46,391	18,722	27,669
<b>Increase (decrease) in net position</b>	<b>\$ 46,391</b>	<b>\$ 18,722</b>	<b>\$ 27,669</b>

**Notable Changes**

No notable changes are reported this year.

**Operations Narrative**

The following narrative is provided to help the reader understand the major operations of the Cooperative, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the Cooperative’s financial situation in the future.

**1) What Services Does the Cooperative Provide?**

All related services are provided to present participants in the Cooperative. These include;

~ Psychological Evaluation Services

- ~ Complete Early Childhood Screening
- ~ Speech/Language Evaluations/Therapy, service includes summer speech program
- ~ Physical Therapy Services
- ~ Occupational Therapy Services
- ~ Audiological Evaluations
- ~ Pre-School Language Program

Other services vary with district needs and district obligation of funds - these presently include;

- ~ Itinerant Teacher(s)
- ~ Instructional Assistants
- ~ Speech Aide services

The Cooperative Director is responsible for supervision and planning for the aforementioned services. The Director also provides;

- ~ Interpretation of special education laws and procedures for district administrators and staff.
- ~ Completion of Child Count and Part B applications as directed by interlocal agreement and program narrative
- ~ Assist and cooperate in developing continuing education experiences for administration, coop. staff and special and regular education instructors and para-professionals as necessary and/or requested.
- ~ Ensure and be responsible for cooperative districts operating in compliance with Federal and State statutes and regulations regarding special education.
- ~ Provide consultation for Child Study Team or Individual Education Plan on individual students as requested
- ~ Pursue grants and programs to enhance services to “at risk” students in the Cooperative area
- ~ Work collaboratively with non-school agencies in the Cooperative area (ie., Mental Health, Dept. of Family Services, Juvenile Justice, etc.) to provide appropriate services for children in need.
- ~ Other duties as outlined in the Director’s job description

**These services are afforded to districts who are Cooperative members. Districts contracting for services will be provided services outlined in a contract approved by the Cooperative Board.**

The Cooperative Board consists of one representative (typically superintendent) from each member district.

## **2) How are Cooperative Services Funded?**

Full member districts provide the following funding to the Cooperative.

- ~ Related Service Block Grant from the state to the Coop. The district provides the RSBG match to the Coop. from district funds.
- ~ Part B Federal Funds and Pre-school from the state to the Coop. for each participating district.

- ~ Administrative/Operations and Maintenance entitlement and travel entitlement from the state to the Coop. This state funding is available because districts are participants in a cooperative effort to provide services. Districts not in a Cooperative do not receive this funding.
- ~ Local Contribution: whatever additional funds are necessary to maintain approved cooperative programs are provided through a pro-rated district contribution. This amount is calculated by taking a district's ANB divided by total Coop. ANB = % X the amount required. [ie. T Falls ANB of 620 divided by Coop. ANB of 1,475 = 42% X \$26,000 = \$10,900 from districts funds to the Coop.]

All 3<sup>rd</sup> party evaluations, out of district placement expenses, or other single district responsibilities are the districts sole responsibility. However, assistance and direction as requested will be provided through the Cooperative.

**3) What does it Cost to Maintain Services provided by the Cooperative**

**On average the Coop. expends \$422,269 to maintain services provided for students of member districts of the Cooperative.**

**4) What are the Capital Assets and Debt of the Cooperative?**

**Capital Assets, Net of Depreciation of the Coop. totaled \$26,667. Long-Term compensated absences make up the debt of the Cooperative in the amount of \$3,337.**

**5) Fund Deficits**

**No fund deficits are noted at this time.**

**6) What Changes and Trends Affect the Cooperative's Future?**

An influx of low incidents of severely disabled students as well as cuts or increases in funding at the federal or state level would have the greatest impact on the future of the Coop.

***Contact for Further Information***

If you have questions about this report, or should you need additional financial information, contact Merle Farrier or Dianne Zimmerman at the Sanders County Educational Services Coop. at P.O. Box 129, Thompson Falls, MT 59873, or call the Coop. office at 406-827-3007.

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Joint Representative Board  
Sanders County Educational Services Cooperative  
Sanders County  
Thompson Falls, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Sanders County Educational Services Cooperative, Sanders 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 Sanders County Educational Services Cooperative, Sanders County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position 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 schedule of funding for other post employment benefits other than pensions on pages 2 through 6, and 25, and 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, on our consideration of the Sanders County Educational Services Cooperative, Sanders 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 Sanders County Educational Services Cooperative, Sanders County, Montana's internal control over financial reporting and compliance.

*Derrington, Downey and Associates, CPAs, P.C.*

June 15, 2015

**Sanders County Educational Cooperative, Sanders County**  
**Statement of Net Position**  
**June 30, 2014**

		<b>Governmental Activities</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	364,368
Noncurrent assets		
Capital assets - depreciable, net	\$	26,667
Total assets	\$	391,035
<b>LIABILITIES</b>		
Current liabilities		
Current portion of compensated absences payable	\$	1,717
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	39,618
Noncurrent portion of compensated absences		1,620
Total noncurrent liabilities	\$	41,238
Total liabilities	\$	42,955
<b>NET POSITION</b>		
Net investment in capital assets	\$	26,667
Restricted for special projects		213,804
Unrestricted		107,609
Total net position	\$	348,080

See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues &amp; Changes in Net Position</u>
<u>Primary government:</u>		<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
			<u>Governmental Activities</u>
Governmental activities:			
Instructional - regular	\$ 682	-	\$ (682)
Instructional - special education	95,434	92,730	(2,704)
Supporting services - operations & maintenance	1,879	2,052	173
Supporting services - general	249,158	277,689	28,531
Supporting services - educational media services	9,569	7,762	(1,807)
Administration - general	5,381	4,104	(1,277)
Administration - school	40,700	40,237	(463)
Administration - business	1,149	2,052	903
Unallocated depreciation*	4,333	-	(4,333)
Total governmental activities	<u>\$ 408,285</u>	<u>\$ 426,626</u>	<u>\$ 18,341</u>
		General Revenues:	
		Other state grants	\$ 11,691
		Investment earnings	504
		County retirement	15,855
		Total general revenues, special items and transfers	<u>\$ 28,050</u>
		Change in net position	<u>\$ 46,391</u>
		Net position - beginning	\$ 301,689
		Net position - end	<u>\$ 348,080</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs  
See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County  
Balance Sheet  
Governmental Funds  
June 30, 2014**

	<u>General</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 150,564	\$ 201,661	\$ 12,143	\$ 364,368
 <b>FUND BALANCES</b>				
Restricted	\$ -	\$ 201,661	\$ 12,143	\$ 213,804
Unassigned fund balance	<u>150,564</u>	<u>-</u>	<u>-</u>	<u>150,564</u>
Total fund balance	<u>\$ 150,564</u>	<u>\$ 201,661</u>	<u>\$ 12,143</u>	<u>\$ 364,368</u>

See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Position  
June 30, 2014**

<b>Total fund balances - governmental funds</b>	\$ 364,368
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,667
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(42,955)
<b>Total net position - governmental activities</b>	<u>\$ 348,080</u>

See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Local revenue	\$ 81,351	\$ -	\$ 33	\$ 81,384
County revenue	-	-	15,855	15,855
State revenue	113,708	30,681	-	144,389
Federal revenue	-	213,048	-	213,048
Total revenues	<u>\$ 195,059</u>	<u>\$ 243,729</u>	<u>\$ 15,888</u>	<u>\$ 454,676</u>
<b>EXPENDITURES</b>				
Instructional - special education	\$ 40,055	\$ 38,534	\$ 16,845	\$ 95,434
Supporting services - operations & maintenance	-	1,879	-	1,879
Supporting services - general	85,443	163,715	-	249,158
Supporting services - educational media services	5,243	4,326	-	9,569
Administration - general	-	5,381	-	5,381
Administration - school	40,700	-	-	40,700
Administration - business	-	1,149	-	1,149
Capital outlay	19,000	-	-	19,000
Total expenditures	<u>\$ 190,441</u>	<u>\$ 214,984</u>	<u>\$ 16,845</u>	<u>\$ 422,270</u>
Net Change in Fund Balance	<u>\$ 4,618</u>	<u>\$ 28,745</u>	<u>\$ (957)</u>	<u>\$ 32,406</u>
Fund balances - beginning	\$ 145,946	\$ 172,916	\$ 13,100	\$ 331,962
Fund balance - ending	<u>\$ 150,564</u>	<u>\$ 201,661</u>	<u>\$ 12,143</u>	<u>\$ 364,368</u>

See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County  
 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:

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 32,406</b>
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	19,000
- Depreciation expense	(4,333)
<b>Change in net position - Statement of Activities</b>	<b>\$ <u>46,391</u></b>

See accompanying Notes to the Financial Statements

**Sanders County Educational Cooperative, Sanders County**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	<b>Agency Funds</b>
<b>ASSETS</b>	
Cash and short-term investments	\$ 10,754
Total assets	\$ <u>10,754</u>
<b>LIABILITIES</b>	
Warrants payable	\$ 10,754
Total liabilities	\$ <u>10,754</u>

See accompanying Notes to the Financial Statements

SANDERS COUNTY EDUCATIONAL COOPERATIVE  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

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

The School 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 Cooperative 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 Cooperative.

*Primary Government*

The Cooperative is a primary government as defined by GASB Cod. Sec. 2100 and has no component units. The Cooperative was created by an interlocal agreement between five School Districts and the County Superintendent of Schools. The Cooperative provides special education services to these School Districts. Each District Superintendent is a member of the advisory board, who is responsible for the operation of the Cooperative. The advisory board hires a director who administers the Cooperative.

**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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

SANDERS COUNTY EDUCATIONAL COOPERATIVE  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2014

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 except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not 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.

**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/

SANDERS COUNTY EDUCATIONAL COOPERATIVE  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

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.

Property taxes, 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 when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the 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.

***Fiduciary Funds***

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined

SANDERS COUNTY EDUCATIONAL COOPERATIVE  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

*Claims Clearing Funds* – Authorized by Section 90-9-220, MCA, for the purpose of reducing bookkeeping requirements associated with the issuing and clearing of warrants.

**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 demand deposits, savings deposits, money markets, and certificates of deposits.

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 Sanders County deposits and investments is available from Sanders County Treasurer's office, P.O. box 519, Thompson Falls, Montana 59873-0519. Fair value approximates carrying value for investments as of 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 costs 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:

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Vehicles 3 years

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

Governmental activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
Other capital assets:			
Machinery and equipment	\$ <u>42,851</u>	\$ <u>19,000</u>	\$ <u>61,851</u>
Less: accumulated depreciation	\$ <u>(30,851)</u>	\$ <u>(4,333)</u>	\$ <u>(35,184)</u>
Total	\$ <u><u>12,000</u></u>	\$ <u><u>14,667</u></u>	\$ <u><u>26,667</u></u>

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

Governmental Activities:

Unallocated \$ 4,333

**NOTE 5. 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:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 2,655	\$ 682	\$ 3,337	\$ 1,717
Other post-employment benefits*	<u>39,618</u>	<u>-</u>	<u>39,618</u>	<u>-</u>
Total	\$ <u><u>42,273</u></u>	\$ <u><u>682</u></u>	\$ <u><u>42,955</u></u>	\$ <u><u>1,717</u></u>

\*See Note 6

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

**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

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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 6. 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, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	39,618
Actuarial value of plan assets		
Unfunded Actuarial Accrued Liability (UAAL)	\$	39,618
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	246,349
UAAL as a percentage of covered payroll		16.08%

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal 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.

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Annual Required Contribution (ARC)	\$	
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)		
Contributions made		-
Increase in net OPEB obligation	\$	
Net OPEB obligation - beginning of year		39,618
Net OPEB obligation - end of year	\$	39,618

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

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.00%
Average salary increase (Consumer Price Index)	2.00%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2013	6.10%
2014	6.60%
2015	6.70%
2016	7.00%
2017	6.80%
2018	6.80%
2019 and after	6.60%

**NOTE 7. 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. Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage

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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	\$ 2,687	\$ 18,952
2013	\$ 2,606	\$ 17,792
2014	\$ 3,164	\$ 12,566

**NOTE 8. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

The government 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	\$ 201,661	Third party grantor restrictions
All Other Aggregate	<u>12,143</u>	Instructional-Special Education
Total	<u>\$ 213,801</u>	

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**NOTE 9. 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.

Insurance Pools:

The Montana Schools Group Insurance Authority (MSGIA) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSGIA. The MSGIA is responsible for paying all workers' compensation claims of the member school Cooperatives. Each member of the MSGIA is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSGIA purchases workers' compensation reinsurance to provide statutory excess limits. The MSGIA contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management, claim management, and risk management services to its program members.

Separate audited financial statements are available from Montana Schools Group Insurance Authority for MSGIA and MSUIP.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Sanders County Educational Services Cooperative, Sanders County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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	\$ -	\$ 98,890	\$ 98,890	0%	\$ 180,727	55%
July 1, 2012	\$ -	\$ 39,618	\$ 39,618	0%	\$ 246,349	16%

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

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

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

Joint Representative Board  
Sanders County Educational Services Cooperative  
Sanders County  
Thompson Falls, 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 Sanders County Educational Services Cooperative, Sanders County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Sanders County Educational Services Cooperative's basic financial statements and have issued our report thereon dated June 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sanders County Educational Services Cooperative, Sanders 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 Sanders County Educational Services Cooperative, Sanders County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Sanders County Educational Services 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described below that we consider a significant deficiency listed as item 2014-001.

#### **2014-001      Segregation of Duties**

**Condition:**

The Clerk is responsible for collecting, receipting, recording, depositing, and reconciling for the Cooperative.

**Context:**

Reviewing the internal control questionnaire and understanding the internal control processes.

**Criteria:**

Proper internal control requires the segregation of duties.

**Effect:**

A weak internal control system is in place.

**Cause:**

There is limited staff available to segregate duties.

**Recommendation:**

The Cooperative should attempt to segregate the duties of collecting, receipting, recording, reconciling to the extent possible.

**Auditee Response:**

Implemented in May 2013, the Cooperative Director and/or Cooperative Board Chairman began signing off on the County Treasurer's monthly reconciliation reports to attempt to eliminate weak internal control. This plan is in place. Beginning May 2014, someone other than the Cooperative Clerk will make deposits on behalf of the Cooperative.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sanders County Educational Services 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.

### **Sanders County Educational Services Cooperative's Response to Findings**

Sanders County Educational Services Cooperative's response to the findings identified in our audit is described above. Sanders County Educational Services Cooperative's response was not subject 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 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.*

June 15, 2015

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Joint Representative Board  
Sanders County Educational Services Cooperative  
Sanders County  
Thompson Falls, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Segregation of Duties	Repeated

*Denning, Downey and Associates, CPAs, P.C.*

June 15, 2015