

FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

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FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Christine Schmidt- Anthony
Paul Jenkins
Jason Christy
Lona Everett
Marc Bunker

President
Trustee
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Noranne Yeager
Meredith Kenlon
Marcia Sheffels
Ed Corrigan

District Superintendent
Business Manager
County Superintendent
County Attorney

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

The Director and Business Manager of the Flathead Special Education Cooperative have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the Cooperative for the fiscal year ended June 30, 2014. Certain comparative information between the current year and the prior is required to be presented in the MD&A.

Using this Financial Report

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

Reporting the Cooperative as a Whole

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

- A. The Statement of Net Position (page 10) shows the “assets” (what is owned), “liabilities” (what is owed) and the “net position” (the resources that would remain if all obligation were settled) of the Cooperative. The statement categorizes assets to show that some assets are liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” assets, such as equipment and vehicles; and some assets are available to fund budgets of the following year.

- B. The Statement of Activities, (page 11) shows the amount of program-specific and general Cooperative revenues used to support the Cooperative’s various functions.

Governmental activities – The Cooperative’s functions include instruction, student services, administration, etc. The general fund, special revenue funds, fiduciary and agency funds usually support most of these functions of the Cooperative.

Proprietary (business-type) activities – The Cooperative does not maintain a proprietary fund type. (Examples of when a proprietary fund may be used would be for purchasing, self-insurance, or if the Cooperative provided services for a fee to outside customers or to other departments of the district.)

Component units – The Cooperative does not have any component units. (A component unit is a legally separate entity for which the Cooperative is financially accountable.)

Reporting the Cooperative's most Significant Funds

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

The fund statement reports balances and activities of the most significant, or "major" funds separately and combines 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 cooperative's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The Balance Sheet, Statement of Net Position, Statement of Revenue, Expenditures, and Changes in Fund Balance are shown for governmental funds.

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

A legally adopted budget is not required for the Flathead Special Education Cooperative, though a budget for the Cooperative is adopted by the Executive Council each fiscal year. Because a budget is not legally adopted, budget to actual revenues and expenditures is not reported but rather a change in revenue and expenditures is shown on page 14.

The Cooperative as a Whole

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Flathead Special Education Cooperative, assets exceeded liabilities by \$1,034,913 as of June 30, 2014.

Capital Assets and Long-term Debt

The Cooperative's capital assets, net of depreciation, was \$491,817 at the start of the fiscal year. The Cooperative disposed of two operating vehicles with total original cost of \$16,796 and depreciation of \$14,996. The Cooperative's ending capital assets, net of depreciation expense is \$467,207.

The Cooperative's long-term debt is comprised of Compensated Absences and Other Post Employment Benefits (OPEB). The Compensated Absences liability increased by \$25,653 and the OPEB liability increased by \$56,128. Overall long-term debt increased by \$81,781.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

The Cooperative's only long-term liability is the amount calculated for uncompensated leave and partial health benefits in retirement until the age of Medicare.

Spending Levels Compared to Resource Levels

The Cooperative's original and final budgets were the same at the beginning and at the end of the year. For the 2010-2011 school year, expenditures were \$ 18,131 below the total budgeted amount. For the 2012-2013 school year, expenditures were \$24,002 below the total budgeted amount. For the 2013-2014 school year, expenditures were \$39,986 below the total budgeted amount.

Changes in Finances Caused by Changes in Programs

In FY 2010 and FY 2011, there was a substantial increase in the Instructional expenditures of the Flathead Special Education Cooperative compared to FY 2009 due to increase in Federal funds made available to the Cooperative by the American Recovery and Reinvestment Act (ARRA). The ARRA funds flowed through the Cooperative and were distributed to the school districts, used primarily for special education instruction purposes. The funds expired in September 2011, resulting in a substantial decrease in the Instructional expenditures of the Cooperative.

Identifying and Resolving Financial Difficulties

There are currently no financial difficulties within the Cooperative.

Significant Events and Trends

The majority of the Cooperative budget, seventy three percent, is related to personnel costs.
FY14

ANALYSIS OF FINANCIAL INFORMATION

What Does the Cooperative Do?

The Cooperative continues to ensure financial stability to provide for the unique costs associated with related services for special education students, including the costs for low incidence populations in specialized programs.

Where Do the Resources Come From?

Cooperative funding is primarily dependent upon state and federal dollars. The federal portion of the budget has increased approximately 6% in the last three years. Funding from FY13 to FY14 increased 7% for IDEA Part B and Preschool Funds, and increased 1% for Interlocal funds.

What does it Cost?

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
School Psychologist per hour:	\$33*	\$34*	\$36*	\$39*	\$36*
Speech/language therapist per hour:	\$36*	\$37*	\$39*	\$44*	\$44*
Speech Aide per hour:			\$20*	\$22*	\$21*
Contracted Occupational Therapist per hour:	\$45	\$45	\$45	\$47	\$47
Contracted Physical Therapist per hour:	\$45	\$45	\$45	\$47	\$47
Contracted Speech/Language per hour:	\$45	\$45	\$45	\$47	\$47
Contracted Teacher Consultant per hour:		\$25	\$25	\$25	\$26

*Excludes benefits and retirement costs

What Changes and Trends Affect the Cooperative's Future?

The federal funds are based upon a three year average of child count, census and poverty *enrollment* data of each member school. Programs depend solely on the availability of federal and state special education dollars and enrollment of students in the participating school districts.

CONTACT FOR FURTHER INFORMATION

If you have any questions about this report or need additional information, contact the Director of Flathead Special Educational Cooperative at 15 Meridian Court, Kalispell, MT 59901 or call 406-257-1852.

Table 1 - Net Position

	Governmental Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 734,871	\$ 701,140	\$ 33,731
Capital assets	467,207	491,817	(24,610)
Total assets	<u>\$ 1,202,078</u>	<u>\$ 1,192,957</u>	<u>\$ 9,121</u>
Long-term debt outstanding	\$ 167,165	\$ 85,384	\$ 81,781
Other liabilities	-	383	(383)
Total liabilities	<u>\$ 167,165</u>	<u>\$ 85,767</u>	<u>\$ 81,398</u>
Net investment in capital assets	\$ 467,207	\$ 491,817	\$ (24,610)
Restricted	432,325	444,049	(11,724)
Unrestricted (deficit)	135,381	171,324	(35,943)
Total net position	<u>\$ 1,034,913</u>	<u>\$ 1,107,190</u>	<u>\$ (72,277)</u>

Table 2 - Changes in Net Position

	Governmental Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Revenues			
<i>Program revenues (by major source):</i>			
Charges for services	\$ 78,281	\$ 65,726	\$ 12,555
Operating grants and contributions	878,167	782,026	96,141
<i>General revenues (by major source):</i>			
Grants and entitlements not restricted to specific programs	-	25,857	(25,857)
Investment earnings	3,695	3,856	(161)
Miscellaneous (other revenue)	3,500	-	3,500
County retirement	38,303	21,712	16,591
Total revenues	<u>\$ 1,001,946</u>	<u>\$ 899,177</u>	<u>\$ 102,769</u>
Program expenses			
Instructional - special education	\$ 169,993	\$ 186,815	\$ (16,822)
Supporting services - operations & maintenance	64,740	47,488	17,252
Supporting services - general	634,613	537,059	97,554
Supporting services - educational media services	30,543	26,123	4,420
Administration - general	-	438	(438)
Administration - school	123,216	120,326	2,890
Administration - business	51,561	38,599	12,962
Total expenses	<u>\$ 1,074,666</u>	<u>\$ 956,848</u>	<u>\$ 117,818</u>
Increase (decrease) in net position	<u>\$ (72,720)</u>	<u>\$ (57,671)</u>	<u>\$ (15,049)</u>

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

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

INDEPENDENT AUDITOR'S REPORT

Executive Council
Flathead Special Education Cooperative
Flathead County
Kalispell, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flathead Special Education Cooperative, Flathead 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 Flathead Special Education Cooperative, Flathead 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 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, on our consideration of the Flathead Special Education Cooperative, Flathead 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 Flathead Special Education Cooperative, Flathead County, Montana's internal control over financial reporting and compliance.

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

March 26, 2015

Flathead Special Education Cooperative, Flathead County, Montana
Statement of Net Position
June 30, 2014

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	629,843
Due from other governments		105,028
Total current assets	\$	734,871
Noncurrent assets		
Capital assets - land	\$	99,176
Capital assets - depreciable, net		368,031
Total noncurrent assets	\$	467,207
Total assets	\$	1,202,078
LIABILITIES		
Current liabilities		
Current portion of compensated absences payable	\$	6,427
Total current liabilities	\$	6,427
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	127,316
Noncurrent portion of compensated absences		33,422
Total noncurrent liabilities	\$	160,738
Total liabilities	\$	167,165
NET POSITION		
Net investment in capital assets	\$	467,207
Restricted for special projects		432,325
Unrestricted		135,381
Total net position	\$	1,034,913

See accompanying Notes to the Financial Statements

Flathead Special Education Cooperative, Flathead County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Primary Government</u>
<u>Primary government:</u>				<u>Governmental Activities</u>
Governmental activities:				
Instructional - special education	\$ 169,993	\$ -	\$ 41,437	\$ (128,556)
Supporting services - operations & maintenance	64,740	362	15,539	(48,839)
Supporting services - general	634,613	69,598	707,239	142,224
Supporting services - educational media services	30,543	7,929	5,180	(17,434)
Administration - school	123,216	30	108,772	(14,414)
Administration - business	51,561	362	-	(51,199)
Total governmental activities	\$ 1,074,666	\$ 78,281	\$ 878,167	\$ (118,218)
Total primary government	\$ 1,074,666	\$ 78,281	\$ 878,167	\$ (118,218)
General Revenues:				
			\$	3,695
				3,500
				38,303
			\$	45,498
			\$	(72,720)
			\$	1,107,190
				443
			\$	1,107,633
			\$	1,034,913

See accompanying Notes to the Financial Statements

Flathead Special Education Cooperative, Flathead County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets:				
Cash and investments	\$ 302,546	\$ 324,141	\$ 3,156	\$ 629,843
Due from other governments	-	105,028	-	105,028
Total assets	<u>\$ 302,546</u>	<u>\$ 429,169</u>	<u>\$ 3,156</u>	<u>\$ 734,871</u>
 FUND BALANCES				
Restricted	\$ -	\$ 429,169	\$ 3,156	\$ 432,325
Unassigned fund balance	<u>302,546</u>	<u>-</u>	<u>-</u>	<u>302,546</u>
Total fund balance	<u>\$ 302,546</u>	<u>\$ 429,169</u>	<u>\$ 3,156</u>	<u>\$ 734,871</u>

See accompanying Notes to the Financial Statements

Flathead Special Education Cooperative, Flathead County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	734,871
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		467,207
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(167,165)
Total net position - governmental activities	\$	<u><u>1,034,913</u></u>

See accompanying Notes to the Financial Statements

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

	General	Miscellaneous Programs	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local revenue	\$ 42,797	\$ 81,944	\$ 33	\$ 124,774
County revenue	-	-	38,303	38,303
State revenue	254,936	41,964	-	296,900
Federal revenue	-	538,469	-	538,469
Total revenues	\$ 297,733	\$ 662,377	\$ 38,336	\$ 998,446
EXPENDITURES				
Instructional - special education	\$ -	\$ 42,796	\$ 38,522	\$ 81,318
Supporting services - operations & maintenance	32,365	17,533	-	49,898
Supporting services - general	154,545	480,068	-	634,613
Supporting services - educational media services	898	29,645	-	30,543
Administration - school	15,510	107,706	-	123,216
Administration - business	48,857	1,630	-	50,487
Total expenditures	\$ 252,175	\$ 679,378	\$ 38,522	\$ 970,075
Excess (deficiency) of revenues over expenditures	\$ 45,558	\$ (17,001)	\$ (186)	\$ 28,371
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ 5,300	\$ -	\$ -	\$ 5,300
Transfers in	-	5,020	-	5,020
Transfers out	(5,020)	-	-	(5,020)
Total other financing sources (uses)	\$ 280	\$ 5,020	\$ -	\$ 5,300
Net Change in Fund Balance	\$ 45,838	\$ (11,981)	\$ (186)	\$ 33,671
Fund balances - beginning	\$ 256,708	\$ 440,707	\$ 3,342	\$ 700,757
Restatements	-	443	-	443
Fund balances - beginning, restated	\$ 256,708	\$ 441,150	\$ 3,342	\$ 701,200
Fund balance - ending	\$ 302,546	\$ 429,169	\$ 3,156	\$ 734,871

See accompanying Notes to the Financial Statements

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

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

Net change in fund balances - total governmental funds	\$	33,671
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
- Depreciation expense		(22,810)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:		
- Loss on deletion of capital assets		(1,800)
The change in compensated absences is shown as an expense in the Statement of Activities		
		(25,653)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(56,128)
Change in net position - Statement of Activities	\$	(72,720)

See accompanying Notes to the Financial Statements

Flathead Special Education Cooperative, Flathead County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

		Agency Funds
ASSETS		
Cash and short-term investments	\$	23,302
Total assets	\$	23,302
LIABILITIES		
Warrants payable	\$	23,302
Total liabilities	\$	23,302

See accompanying Notes to the Financial Statements

FLATHEAD SPECIAL EDUCATION COOPERATIVE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

In determining the financial reporting entity, the Cooperative complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the District appointed a voting majority of the component units' board; the District 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 was created by an interlocal agreement between sixteen rural school districts and the County Superintendent in May 1981. The Cooperative provides special education services to these districts. Each District is a member of the management board, which is responsible for the operation of the Cooperative. The executive board is elected members of the management board who 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.

FLATHEAD SPECIAL EDUCATION COOPERATIVE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, 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 District 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 District or meets the following criteria:

FLATHEAD SPECIAL EDUCATION COOPERATIVE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

The Cooperative defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to 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.

FLATHEAD SPECIAL EDUCATION COOPERATIVE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Major Funds:

The District reports the following major governmental funds:

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

Miscellaneous Programs Fund – This fund accounts for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support Cooperative programs are deposited in this fund.

Fiduciary Funds

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

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the District as an agent for individuals, private organizations, other local governmental entities and the District’s claims and payroll clearing funds

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The Cooperative's cash, except for the petty cash account, 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 certificates of deposit and U.S. government securities.

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 Flathead County deposits and investments is available from Flathead County Treasurer’s office, 800 South Main, Kalispell, MT 59901. Fair value approximates carrying value for investments as of June 30, 2014. Flathead County Investment pool is not rated.

Deposits

The Cooperative’s deposit balance at year end was \$693 and the bank balance was \$693. The Cooperative’s bank balance was fully insured by FDIC as of June 30, 2014.

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 3. INVENTORIES

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

NOTE 4. CAPITAL ASSETS

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

Improvements other than buildings	20 - 30 years
Buildings	50 years
Machinery and Equipment	5 - 8 years

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

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

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 99,176	\$ -	\$ -	\$ 99,176
Other capital assets:				
Buildings	\$ 315,947	\$ -	\$ -	\$ 315,947
Improvements other than buildings	5,990	-	-	5,990
Machinery and equipment	147,700	-	(16,796)	130,904
Total other capital assets at historical cost	\$ 469,637	\$ -	\$ (16,796)	\$ 452,841
Less: accumulated depreciation	\$ (76,996)	\$ (22,810)	\$ 14,996	\$ (84,810)
Total	\$ 491,817	\$ (22,810)	\$ (1,800)	\$ 467,207

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

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

Governmental Activities:	
Instructional – special education	\$ 6,894
Supporting services – operations and maintenance	14,842
Administration – school	<u>1,074</u>
Total governmental activities depreciation expense	<u>\$ 22,810</u>

NOTE 5. LONG TERM DEBT OBLIGATIONS

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

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 14,196	\$ 25,653	\$ 39,849	\$ 6,427
Other post-employment benefits*	<u>71,188</u>	<u>56,128</u>	<u>127,316</u>	<u>-</u>
Total	<u>\$ 85,384</u>	<u>\$ 81,781</u>	<u>\$ 167,165</u>	<u>\$ 6,427</u>

*See Note 6

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

Compensated Absences

Sick leave is earned at a rate of 15 days per academic year accumulative up to 120 days. Upon retirement or termination, employees are paid \$50 for each unused day of sick leave up to 85 days, if the employee has 5 or more consecutive years in the Cooperative and has satisfactorily completed his/her individual contract and terminates employment with the Cooperative

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

Special Retirement Benefits

The Cooperative offers early retirement incentives which are intended to provide employees flexibility in developing new career options through capitalization of financial incentives of value to both the retiring employee and to the Cooperative. The Cooperative did not expense any special retirement benefits in financial year 2014. Two options are offered and described below:

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

Under the provisions of the first option, the Cooperative staff member must have twenty-five years or more with earned credit from Montana Teacher's Retirement System and ten (10) years of employment with Flathead Special Education Cooperative. An eligible retiree can receive a one-time cash buy out of \$10,000.

A second option is available to those who are eligible for the above mentioned option. This option includes a monthly health insurance premium contribution of \$300 per month up to twenty-four (24) months or until the employee reaches the age that Medicare coverage commences, whichever comes first.

The above mentioned retirement incentives will only be offered to two (2) employees in the same given year. Determination of participation will be based on the date that the request(s) was received by the Director.

There were no outstanding liabilities for retirement incentives as of June 30, 2014.

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. However, the Cooperative has set aside an amount within the Miscellaneous Programs fund to pay for future benefits.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$	451,695
Actuarial value of plan assets		-
Unfunded Actuarial Accrued Liability (UAAL)	\$	425,561
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	451,695
UAAL as a percentage of covered payroll		102%

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

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.

Annual Required Contribution (ARC)	\$	56,128
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	56,128
Contributions made	\$	-
Increase in net OPEB obligation	\$	56,128
Net OPEB obligation - beginning of year		71,188
Net OPEB obligation - end of year	\$	127,316

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

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	0.48%
Average salary increase (Consumer Price Index)	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and after	6.9%

NOTE 7. OPERATING LEASE COMMITMENTS

The District is bound by two lease commitments which are considered for accounting purposes to be operating leases. Minimum lease payments for the fiscal year ended June 30, 2014, amounted to \$18,082. The Cooperative paid a onetime lease payment in December 2013 for the amount listed. The white Camry and green Camry lease ends December 4, 2016

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

<u>Lease</u>	<u>Origination</u> <u>Date</u>	<u>Term</u>	<u>Maturity</u> <u>Date</u>	<u>Balance</u> <u>June 30, 2014</u>
White Camry	12/05/13	3yrs	12/04/16	\$ -
Green Camry	12/05/13	3yrs	12/04/16	-
				<u>\$ -</u>

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Compensated	Miscellaneous –	General/Interlocal –	<u>\$ 5,020</u>
Absences transfer	Major Governmental	Major Governmental	

NOTE 9. 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 of covered payroll for the fiscal year ended June 30, 2013, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	7.8%	7.9%
Employee	8.47%*	8.15%
State	0.37%	2.49%

* For PERS members hired after 7/1/2011 that rate is 7.9%

** 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:

FLATHEAD SPECIAL EDUCATION COOPERATIVE
 FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

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	\$ 1,701	\$ 42,952
2013	\$ 1,811	\$ 31,322
2014	\$ 2,629	\$ 39,937

NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

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

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

The 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>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Retirement-Non-Major	\$ 3,156	Instructional – special education
Miscellaneous-Major	<u>429,169</u>	Supporting services
Total	<u>\$ 432,325</u>	

NOTE 11. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Miscellaneous Programs	\$ <u>443</u>	Prior period revenue adjustment

FLATHEAD SPECIAL EDUCATION COOPERATIVE
FLATHEAD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 12. INTERLOCAL AGREEMENTS

The Flathead Special Education Cooperative (FSEC) has Interlocal Agreements with Evergreen Special Services Preschool and Eureka Preschool to provide preschool services to children ages 3 through 5 who are residents of participating school districts and any who meet eligibility criteria under the Individuals with Disabilities Education Act (IDEA). Under these agreements, the FSEC paid Evergreen Preschool an annual placements fee of \$150 for each student as well as IDEA Preschool funding of \$16,682 in exchange for provision of said services to the following districts: Olney/Bissel, Cayuse Prairie, Creston, Deer Park, Fairmont Egan, Kila, Marion, Smith Valley, Swan River, Somers and West Valley. The FSEC paid Eureka Preschool an annual participation fee of \$415 per school for the provision of Preschool services to student residing in Trego and Fortine School Districts.

The FSEC also has an Interlocal Agreement with Flathead Crossroads Programs to provide educational services to students who have been identified with chronic emotional and behavioral needs under IDEA who reside in the participating districts. Under this agreement, the FSEC paid Crossroads a participation fee of \$2 per ANB count based on the spring count for students grades K through 8 in the following school districts: Olney/Bissel, Cayuse Prairie, Creston, Deer Park, Fairmont Egan, Kila, Marion, Smith Valley, Swan River, West Glacier, and West Valley.

The FSEC also has an Interlocal Agreement with Northwest Montana Head Start to provide educational services to children, ages 3-5, identified under the Individuals with Disabilities Education Act. The Cooperative and the Head Start are collaborating to determine how services will be provided to each student. The fees associated with the head start are paid for through Free Appropriate Public Education (FAPE). The said services are available to the following districts: Olney/Bissel, Cayuse Prairie, Creston, Deer Park, Fair-Mont-Egan, Fortine, Kila, Marion, Pleasant Valley, Smith Valley, Swan Lake/Salmon Prairie, Swan River, Somers, Trego, West Glacier and West Valley.

NOTE 13. RISK MANAGEMENT

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

Insurance Policies:

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

**REQUIRED SUPPLEMENTAL
INFORMATION**

Flathead Special Education Cooperative, Flathead 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		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
		Liability (AAL) Unit Credit Cost Method (b)					
July 1, 2009	\$ -	\$ 32,464		\$ 32,464	0%	\$ 411,662	7.9%
July 1, 2012	\$ -	\$ 451,695		\$ 451,695	6%	\$ 440,981	102%

SINGLE AUDIT SECTION

Flathead Special Education Cooperative, Flathead County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditure June 30, 2014
U.S. Department of Education			
<i>Passed through Office of Public Instruction:</i>			
Special Education - Preschool Grants	84.173A	159695 7914	\$ 20,508
Special Education - Grants to States	84.027	159695 7714	<u>517,961</u>
Total Federal Financial Assistance			\$ <u><u>538,469</u></u>

FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Flathead Special Education Cooperative, Flathead County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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

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

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

Executive Council
Flathead Special Education Cooperative
Flathead County
Kalispell, 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 Flathead Special Education Cooperative, Flathead County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Flathead Special Education Cooperative's basic financial statements and have issued our report thereon dated March 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flathead Special Education Cooperative, Flathead 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 Flathead Special Education Cooperative, Flathead County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Flathead 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Flathead 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*.

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.

Derring, Downey and Associates, CPAs, P.C.

March 26, 2015

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

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

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

Executive Council
Flathead Special Education Cooperative
Flathead County
Kalispell, Montana

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

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

March 26, 2015

FLATHEAD SPECIAL EDUCATION COOPERATIVE

FLATHEAD COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No