

PARK COUNTY SPECIAL EDUCATION COOPERATIVE

PARK COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

PARK COUNTY SPECIAL EDUCATION COOPERATIVE

PARK COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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PARK COUNTY SPECIAL EDUCATION COOPERATIVE

PARK COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF TRUSTEES**

Erik Wilkerson  
Rich Moore  
Jan Cahill  
Ed Barich  
J.T. Stroder  
Michelle McCarthy

President  
Vice President  
Board Member  
Board Member  
Board Member  
Board Member

**COOPERATIVE OFFICIALS**

Verne Beffert  
Lorrain Lende  
Ed Barich  
Elizabeth Kaleva

Director  
Clerk  
County Superintendent  
Cooperative Attorney

## **Park County Special Education Cooperative Management Discussion and Analysis Year Ended June 30, 2014**

The discussion and analysis of the Park County Cooperative's financial performance provides an overall review of the financial activities for the year ended June 30, 2014. The intention of the analysis is to look at the overall financial performance as a whole.

### **USING THIS FINANCIAL REPORT**

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

### **REPORTING THE COOPERATIVE AS A WHOLE**

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

- A. The statement of Net Position shows the "asset" what is owed; "liabilities" (what is owed); and, the "net position" (the resources that would remain if all obligations were settled). The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "capital assets" such as Cooperative owned vehicles.
- B. The Statement of Activities shows the amounts of program-specific and general Cooperative revenues used to support the Cooperative's various functions.

Governmental Activities – The Cooperative functions include instruction, student supports services, administration, and other similar functions necessary to support member district's services to IDEA eligible students. State and Federal revenues support most functions of the Cooperative.

### **REPORTING THE COOPERATIVE'S MOST SIGNIFICANT FUNDS**

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

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

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

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

<b>Table 1 - Net Position</b>			
	Activities		
			Change
	FY14	FY13	Inc (Dec)
Current and other assets	240,231	248,852	(8,621)
Capital assets	43,000	29,464	13,536
Total assets	283,321	278,316	5,005
Long-term debt outstanding	208,079	207,101	978
Total liabilities	225,102	229,802	(4,700)
Net Investment in capital assets	43,000	29,464	13,536
Restricted	94,827	90,172	4,655
Unrestricted (deficit)	(79,608)	(71,122)	(8,486)
Total net position	58,219	48,514	9,705

<b>Table 2 - Changes in Net Position</b>			
	Activities		
			Change
<b>Revenues</b>	FY14	FY13	Inc (Dec)
<i>Program revenues (by major source):</i>			
Operating grants and contributions	671,313	722,754	(51,441)
<i>General Revenues (by major source):</i>			
Investment earnings	172	236	(64)
Miscellaneous (other revenue)	5,591	-	5,591
County retirement	30,941	23,557	7,384
Total revenues	708,017	746,547	(38,530)
<b>Program expenses</b>			
Instruction – special education	52,853	29,761	23,092
Supporting services - operations & maintenance	16,315	8,652	7,663
Supporting services - general	412,430	406,694	5,736
Supporting services - educational media services	17,993	330	17,663
Administration - general	14,145	15,877	(1,732)
Administration - school	163,723	251,023	(87,300)
Administration - business	19,601	17,904	1,697
Unallocated depreciation	1,252	-	1,252
Total expenses	698,312	730,241	(31,929)
Increase (decrease) in net position	9,705	16,306	(6,601)

The above figures reflect a significant reduction in the Coop’s Federal Part B allocation due in large part to the effect of the Federal “sequestration”.

### **CAPITAL ASSETS**

Capital assets of the Cooperative are limited to ownership of three vehicles used by itinerant staff, and a copy machine.

### **DEBT**

The Cooperative recognizes a liability for “current and noncurrent compensated absences” of \$75,700. The Cooperative expects to maintain cash or cash equivalent reserves sufficient to cover this liability.

### **THE FUTURE OF THE COOPERATIVE**

The Cooperative expects to generate significantly more revenue in FY 15 than will be generated in FY14, due in large part to an increase in Child Count numbers. October 2013 Child Count for IDEA Part B was 194 children. The October 2014 Child Count will be 226, which is an increase of 32 children.

### **CONTACT INFORMATION**

If you have questions about this report or need additional information contact the Park County Special Education Cooperative Clerk at 129 River Drive, Livingston, MT 59047, or at 406-222-6600.

***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**

Board of Trustees  
Park County Special Education Cooperative  
Park County  
Livingston, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major funds of Park County Special Education Cooperative, Park 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 and the major funds of Park County Special Education Cooperative, Park 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 4, and 24 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 April 28, 2015, on our consideration of the Park County Special Education Cooperative, Park 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 Park County Special Education Cooperative, Park County, Montana's internal control over financial reporting and compliance.

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

April 28, 2015

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

		<b>Governmental Activities</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	240,321
Noncurrent assets		
Capital assets - depreciable, net	\$	43,000
Total noncurrent assets	\$	43,000
Total assets	\$	283,321
 <b>LIABILITIES</b>		
Current liabilities		
Current portion of compensated absences payable	\$	17,023
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	149,402
Noncurrent portion of compensated absences		58,677
Total noncurrent liabilities	\$	208,079
Total liabilities	\$	225,102
 <b>NET POSITION</b>		
Net investment in capital assets	\$	43,000
Restricted for special projects		94,827
Unrestricted		(79,608)
Total net position	\$	58,219

See accompanying Notes to the Financial Statements

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

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
<u>Primary government:</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
Governmental activities:			<u>Governmental Activities</u>
Instructional - special education	\$ 52,853	\$ 59,786	\$ 6,933
Supporting services - operations & maintenance	16,315	30,361	14,046
Supporting services - general	412,430	371,043	(41,387)
Supporting services - educational media services	17,993	16,136	(1,857)
Administration - general	14,145	16,129	1,984
Administration - school	163,723	157,696	(6,027)
Administration - business	19,601	20,162	561
Unallocated depreciation*	1,252	-	(1,252)
Total primary government	\$ 698,312	\$ 671,313	\$ (26,999)
General Revenues:			
Investment earnings		\$	172
Miscellaneous (other revenue)			5,591
County retirement			30,941
Total general revenues, special items and transfers		\$	36,704
Change in net position		\$	9,705
Net position - beginning		\$	48,514
Net position - end		\$	58,219

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ <u>145,494</u>	\$ <u>39,574</u>	\$ <u>55,253</u>	\$ <u>240,321</u>
 <b>FUND BALANCES</b>				
Restricted	\$ -	\$ 39,574	\$ 55,253	\$ 94,827
Unassigned fund balance	<u>145,494</u>	<u>-</u>	<u>-</u>	<u>145,494</u>
Total fund balance	<u><u>\$ 145,494</u></u>	<u><u>\$ 39,574</u></u>	<u><u>\$ 55,253</u></u>	<u><u>\$ 240,321</u></u>

See accompanying Notes to the Financial Statements

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

<b>Total fund balances - governmental funds</b>	\$	240,321
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		43,000
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(225,102)
<b>Total net position - governmental activities</b>	\$	58,219

See accompanying Notes to the Financial Statements

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

	<b>General</b>	<b>Retirement</b>	<b>Miscellaneous Programs</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Local revenue	\$ 8,077	\$ -	\$ -	\$ 8,077
County revenue	-	30,941	-	30,941
State revenue	194,587	-	44,740	239,327
Federal revenue	-	-	424,622	424,622
Total revenues	\$ 202,664	\$ 30,941	\$ 469,362	\$ 702,967
<b>EXPENDITURES</b>				
Instructional - special education	\$ 7,259	\$ 494	\$ 49,800	\$ 57,553
Supporting services - operations & maintenance	1,074	-	12,116	13,190
Supporting services - general	183,621	26,884	201,925	412,430
Supporting services - educational media services	4,271	-	13,722	17,993
Administration - general	-	-	14,145	14,145
Administration - school	7,825	995	149,966	158,786
Administration - business	-	-	19,601	19,601
Capital outlay	19,000	-	6,000	25,000
Total expenditures	\$ 223,050	\$ 28,373	\$ 467,275	\$ 718,698
Excess (deficiency) of revenues over expenditures	\$ (20,386)	\$ 2,568	\$ 2,087	\$ (15,731)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the sale of general capital asset disposition	\$ 7,200	\$ -	\$ -	\$ 7,200
Total other financing sources (uses)	\$ 7,200	\$ -	\$ -	\$ 7,200
Net Change in Fund Balance	\$ (13,186)	\$ 2,568	\$ 2,087	\$ (8,531)
Fund balances - beginning	\$ 158,680	\$ 37,006	\$ 53,166	\$ 248,852
Fund balance - ending	\$ 145,494	\$ 39,574	\$ 55,253	\$ 240,321

See accompanying Notes to the Financial Statements

**Park County Special Education Cooperative, Park 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** \$ (8,531)

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	25,000
- Depreciation expense	(9,314)

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:

- Proceeds from the sale of capital assets	(7,200)
- Gain on the sale of capital assets	5,050

The change in compensated absences is shown as an expense in the Statement of Activities

4,700

**Change in net position - Statement of Activities** \$ 9,705

See accompanying Notes to the Financial Statements

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
PARK 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**

*Primary Government*

The Cooperative was established by an interlocal agreement, dated July 1, 2006, between eight school districts and the County Superintendent of Schools. The Cooperative provides special education services to participating cooperative members, each of whom are members of the advisory board and responsible for the Cooperative's operations. The advisory board hires a director whom administers the Cooperative. Based on criteria for determining the reporting entity as described in GASB 14, as amended by GASB 61, GASB 39, and GASB Cod. Sec. 2100, the Cooperative is a primary government and has no component units.

*Budgetary Information*

Montana law does not require the Cooperative to adopt a budget. Because a budget is not legally adopted, this report does not present a budget comparison schedule. However, each fiscal year, the Montana Office of Public Instruction approves and serves as the budgetary authority of the advisory board's Special Education Program budget.

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

***Government-wide Financial Statements:***

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
PARK 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 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, both governmental and business-type 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. 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:

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
PARK 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 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.

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

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.

*Retirement Fund* – This fund accounts for the financing related to contributions to the Teacher’s Retirement System (TRS), the Public Employee’s Retirement System (PERS), Unemployment Compensation, and Social Security.

*Miscellaneous Programs Fund* – This fund accounts for local, state, or federal grants and reimbursements. The Cooperative also deposits donations and expendable trusts for special purposes into this fund.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2014 are as follows:

	<u>Total</u>
Cash in banks:	
Demand deposits	\$ 84,818
Savings deposits	155,503
Total	\$ <u>240,321</u>

**Credit Risk**

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.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposit may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2014, the Cooperative’s bank balance of \$295,503 was exposed to custodial credit risk as follows:

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

<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 250,000
- Collateral held by the pledging bank's trust department in the Cooperative's name.	45,503
Total deposits and investments	<u>\$ 295,503</u>

**Deposit Security**

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- a. 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- b. 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for Cooperative deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

**NOTE 3. INVENTORIES**

The cost of inventories are recorded as expenditures 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:

Vehicles	8 years
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In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Cooperative has no infrastructure to include in the 2014 Basic Financial Statements.

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

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>
Other capital assets:				
Machinery and equipment	\$ 66,704	\$ 25,000	\$ (17,200)	\$ 74,504
Less: accumulated depreciation	\$ (37,240)	\$ (9,314)	\$ 15,050	\$ (31,504)
Total	<u>\$ 29,464</u>	<u>\$ 15,686</u>	<u>\$ (2,150)</u>	<u>\$ 43,000</u>

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

Governmental Activities:

Instructional – special education	\$	8,062
Unallocated		<u>1,252</u>
Total governmental activities depreciation expense	\$	<u>9,314</u>

**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:

	Balance <u>July 1, 2013</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 80,400	\$ (4,700)	\$ 75,700	\$ 17,023
Retiree liability	13,692	-	13,692	-
Other post-employment benefits*	135,710	-	135,710	-
Total	<u>\$ 229,802</u>	<u>\$ (4,700)</u>	<u>\$ 225,102</u>	<u>\$ 17,023</u>

\*See Note 6

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

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

**Compensated Absences**

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

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

**Special Retirement Benefits**

The Cooperative has an agreement with one employee based on the transfer from the Livingston School District to a separate entity. The employee is entitled to an early retirement bonus in which the Cooperative's share would be \$13,692. The Cooperative has recorded this amount as an early retirement long-term liability.

**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.

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
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June 30, 2014

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

Actuarial Accrued Liability (AAL)	\$	135,710
Actuarial value of plan assets		-
Unfunded Actuarial Accrued Liability (UAAL)	\$	<u>135,710</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	283,400
UAAL as a percentage of covered payroll		47.89%

*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)	\$	-
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	\$	<u>-</u>
Contributions made		-
Increase in net OPEB obligation	\$	-
Net OPEB obligation - beginning of year		<u>135,710</u>
Net OPEB obligation - end of year	\$	<u>135,710</u>

*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)	0.17%
Average salary increase (Consumer Price Index)	1.50%

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
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June 30, 2014

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2014	7.80%
2015	6.40%
2016	6.20%
2017	6.10%
2018	6.00%
2019	6.40%
2020	6.90%
2021	6.70%
2022 and after	6.90%

**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 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.

PARK COUNTY SPECIAL EDUCATION COOPERATIVE  
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June 30, 2014

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	\$ 7,438	\$ 28,005
2013	\$ 7,523	\$ 30,471
2014	\$ 2,588	\$ 34,045

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

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	\$ 39,574	Employer cost of benefits
Miscellaneous Programs	\$ 55,253	Third party grantor restrictions

**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.

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

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 districts. 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.

The Montana School Unemployment Insurance Program (MSUIP) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSUIP. The MSUIP is responsible for paying all unemployment insurance claims of the member school districts. Each member of the MSUIP 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 MSUIP contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management and technical services to its program members.

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

**REQUIRED SUPPLEMENTAL  
INFORMATION**

Park County Special Education Cooperative, Park 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	\$ -	\$ 164,458	\$ 164,458	0%	\$ 444,953	37.0%
July 1, 2012	\$ -	\$ 135,710	\$ 135,710	0%	\$ 283,400	47.9%

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

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

Board of Trustees  
Park County Special Education Cooperative  
Park County  
Livingston, 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 and the major funds of Park County Special Education Cooperative, Park County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Park County Special Education Cooperative's basic financial statements and have issued our report thereon dated April 28, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Park County Special Education Cooperative, Park 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 Park County Special Education Cooperative, Park County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Park County Special Education Cooperative's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 Park County Special Education Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

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

April 28, 2015