

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Blaine County
County Seat – Chinook, MT

June 30, 2014

Blaine County

June 30, 2014

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Blaine County

June 30, 2014

ELECTED OFFICIALS

BOARD OF COUNTY COMMISSIONERS

Dolores Plumage	Chairperson
Frank DePriest	Member
Charles Kulbeck	Member

COUNTY OFFICIALS

Donald Ranstrom	Attorney
Sandra L. Boardman	Clerk and Recorder/Assessor
Kay O'Brien Johnson	Clerk of Court
Perry W. Miller	Justice of the Peace
Glenn Huestis	Sheriff/Coroner
Terry Brockie	Superintendent of Schools
Wenda Oehmcke	Treasurer

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Blaine County
PO Box 278
Chinook, MT 59523

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 Blaine County (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The County's 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 County'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 County'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 the County, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity 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, budgetary comparison information, and schedule of funding progress for the retiree health plan (as referenced in the table of contents) 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 supplemental 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 County's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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 basic 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 24, 2015 on our consideration of the County's internal control over financial reporting and 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 the 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 the County's internal control over financial reporting and compliance.

Wipfli LLP

Helena, Montana
March 24, 2015

Blaine County

MANAGEMENT'S DISCUSSION & ANALYSIS

July 01, 2013 - June 30, 2014

Blaine County is located in North Central Montana with the border of Saskatchewan, Canada to the north and the Missouri River to the South. Phillips County borders to the east and Hill and Choteau Counties border to the west. Total acres in Blaine County are 2,729,491. This equivocates to an area roughly the size of the State of Connecticut or New Hampshire. Of this total BLM comprises 462,990 acres, State 180,728 acres, Sub Marginal 25,530 acres, Fort Belknap Indian Reservation 501,600 acres and Private 1,560,032 acres. Population is unofficially 6046 from the U.S. Census, including the exterior boundaries of Fort Belknap Indian Reservation.

The Fort Belknap Indian Reservation comprises 501,600 acres in southeastern Blaine County. Less than one half of 1% of the land within the reservation boundaries is taxable. The County does provide services on the reservation, usually in a secondary capacity for emergency services as well as all the services in the courthouse and some judicial services to the residents of Fort Belknap. Additionally, Blaine County is in a secondary position to providing services with the State of Montana when primary service responsibility is undertaken by tribal government and/or federal government trust responsibility.

FINANCIAL HIGHLIGHTS

The Road and Bridge Department continues with the fleet rotation program for the vehicles, motor graders and front end loaders. The rotation program keeps the Road and Bridge Department running efficiently and saves many dollars on repairs. Other equipment is purchased on an as needed basis. TSEP Phase III has been completed. The following projects are TSEP Phase IV to be completed this year – Battle Creek Bridge (existing bridge to be replaced with an old bridge off of U.S. 2,) with a total of \$448,910.96 spent to date, Peoples Creek spent to date is \$119,814.61 and Corral Coulee spent to date \$143,999.35 as of June 30, 2014.

Ambulance service vehicles in the County are on a rotation basis as well. No ambulances were purchased in 2013-2014.

Blaine County Volunteer Fire Departments are funded per Montana Code Annotated (MCA) and grants. The County received a Department of Natural Resources grant for \$7,556 including a County match. Chinook purchased personal protection equipment for the fire fighters; Harlem purchased miscellaneous fire and PPE equipment; Turner purchased a used water truck for \$25,000 out of the 2013-2014 budget year.

Under the Sheriff's Department vehicle rotation, the County purchased one new patrol vehicle, the Sheriff's Office received a grant from DES(Homeland Security) to purchase a K-9 patrol dog trained in drug detection, evidence collection and tracking. A K-9 patrol vehicle and three Panasonic Toughbook computers were purchase through the Stone Garden Grant. The County funded a deputy position to allow us to have a full time deputy assigned to the Tri-Agency Drug Task Force and the purchase of seven patrol rifles. Three patrol vehicles were equipped with MDT computers with automatic vehicle locators through grant fund.

The Commissioners approved an annual cost-of-living increase of \$1,635.84 for the elected officials with an annual \$1,393.60.00 cost-of-living increment for full time employees and health insurance premiums increased to \$706.11 per individual and the additional \$2,000.00 to the Clerk & Recorder for being the Election Administrator.

Blaine Counties Program Revenues: charges for services, fines and forfeitures were \$632,390. Operating Grants and Contributions were \$950,167, Capital grants and contributions were \$523,999 and General Revenues, including Property Taxes and Local Option Taxes were \$2,731,900, Federal Revenues were \$1,027,493 and State Revenues were \$1,247,820 for a total of \$7,113,769. Total expenses were \$7,850,262.

At the end of 2014 the PILT fund had a balance of \$4,162,116.87 in cash. The PILT dollars are used for any expenditure outside of a budget and covers unanticipated emergencies.

continued

Blaine County

MANAGEMENT'S DISCUSSION & ANALYSIS

July 01, 2013 - June 30, 2014

Overall, of the \$7,850,262 expenses of Blaine County, 37% is General Government, 22% is Public Safety, 27% is Public Works, 6% is Public Health, 1% is Social & Economic, 6% is Culture and Recreation, less than 1% for Housing/Community, Conservation of Natural Resources and miscellaneous expenditures. Overall, on the revenue side of the \$4,838,456 for program revenues, property taxes and local option taxes, taxes were 56%; Charges for Services, Fines and Forfeitures were 13%, Operating Grants and Contributions were 20% and Capital Grants and Contributions were 11%.

FUND FINANCIAL STATEMENTS

The County received dollars from various grants during the year and there were no unanticipated significant transactions.

GENERAL FUND

General fund expenditures show little comparative difference. Decreases on the revenue side are a result of decreases in interest rates, leases, royalty payments and the oil & gas revenue.

GENERAL FUND BUDGET

The budgetary comparison schedules show how actual expenditures compared to the original and final budgeted expenditures for the general fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Blaine County has a long term debt liability for unpaid vacation and sick leave in the amount of \$315,271.00 and \$793,137.00 for the OPEB GASB 45 as of June 30, 2014. Blaine County enjoys no other long-term debt.

The Governmental Accounting Statistical Board (GASB) issued new accounting standards in 1999 that revised the form of local governmental entities' financial statements. In our case, we implemented the new financial report for the Fiscal Year 2003-2004. Additionally, in 2010-2011, Blaine County instituted GASB 54 standards into our accounting system.

The governmental financial statements described are intended to provide a broad overview of Blaine County's finances. They will be found on the following pages.

The Statement of Net Position outlines all of Blaine County's assets and liabilities that fall entirely in Governmental Activities. The difference between the assets and liabilities is a total of \$20,577,887 for Blaine County. The increase or decrease, along with other non-financial factors such as change in tax base and legislative action, serve as a useful indicator for whether the County's financial position has improved or deteriorated.

The Statement of Activity for Blaine County reveals how net position changes during the recent fiscal year. Both the Statement of Net Position and Statement of Activities use the accrual basis of accounting similar to the accounting used in the private sector. This basis of accounting takes into account all the year's revenues and expenses regardless of when cash is received and/or paid.

Blaine County has only one category of governmental activities for the funding reported. These are principally supported by taxes and intergovernmental revenues.

BLAINE COUNTY GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

continued

Blaine County

MANAGEMENT'S DISCUSSION & ANALYSIS

July 01, 2013 - June 30, 2014

Condensed Statement of Net Position				
Governmental Activities				
	2013	2014	Change	%
ASSETS				
Current and other assets	\$ 12,374,360	\$ 11,388,735	\$ (985,625)	-9%
Capital assets	9,641,288	10,298,179	656,891	6%
Total assets	22,015,648	21,686,914	(328,734)	-2%
LIABILITIES				
Other liabilities	712	619	(93)	-15%
Long-term-liabilities outstanding	882,313	1,108,408	226,095	20%
Total liabilities	883,025	1,109,027	226,002	20%
NET POSITION				
Net investment in capital assets	9,641,288	10,298,179	656,891	6%
Restricted net position	1,120,937	1,176,296	55,359	5%
Unrestricted net position	10,370,398	9,103,412	(1,266,986)	-14%
Total net position	\$ 21,132,623	\$ 20,577,887	\$ (554,736)	-3%

Condensed Statement of Activities				
Governmental Activities				
	2013	2014	Change	%
Program revenues:				
Fines, fees and charges for services	\$ 677,251	\$ 632,390	\$ (44,861)	-7%
Operating grants	944,093	950,167	6,074	1%
Capital Grants	157,199	523,999	366,800	70%
General Revenues:				
Taxes	2,655,972	2,731,900	75,928	3%
Shared revenues	2,438,062	2,275,313	(162,749)	-7%
Investment earnings	96,977	60,467	(36,510)	-60%
Gain (loss) on disposal of capital assets	(19,055)	2,871	21,926	764%
Miscellaneous	116,022	118,419	2,397	2%
Total revenues	7,066,521	7,295,526	229,005	3%
Program expenses:				
General government	2,521,612	2,855,469	333,857	12%
Public safety	1,648,592	1,751,410	102,818	6%
Public works	1,883,974	2,121,694	237,720	11%
Public health	500,687	495,730	(4,957)	-1%
Social & economic	133,840	109,003	(24,837)	-23%
Culture & recreation	440,371	447,194	6,823	2%
Housing & community development	27,158	36,506	9,348	26%

continued

Blaine County

MANAGEMENT'S DISCUSSION & ANALYSIS

July 01, 2013 - June 30, 2014

Condensed Statement of Activities

	Governmental Activities			
	2013	2014	Change	%
Conservation of natural resources	30,204	32,359	2,155	7%
Miscellaneous	897	897	-	0%
Total program expenses:	7,187,335	7,850,262	662,927	8%
Change in net position	(120,814)	(554,736)	(433,922)	78%
Net position, beginning of year	21,253,437	21,132,623	(120,814)	-1%
Net position, end of year	\$ 21,132,623	\$ 20,577,887	\$ (554,736)	-3%

COMPARATIVE INFORMATION

Investment revenues were dismal as interest rates remained, but guaranteed at .25 % in August 2013 through June 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Blaine County in north central Montana has a population of 6491 people with approximately 49% Native Americans living on or near the Fort Belknap Indian Reservation. The County is very rural with no urban centers.

The economy of Blaine County, according to Montana's economy at a glance, is farming, ranching, natural gas and oil production, and government services and transfer payments. Natural resources make up approximately 55% of our revenue.

All funds have a healthy reserve as a result of conservative financial practices and fiscally healthy responsibility of leadership. Due to the volatile nature of the natural resource industry, caution is paid to the revenue generated. Higher operating costs are studied and dealt with. Interest rates are now guaranteed at .25%.

The taxable value has been starting to decline. The County has exercised some of the mill levy increases given to us by the legislature for inflation factors. Blaine County has seen very little new construction in any sector of the economy.

Blaine County remains committed to a conservative spending approach, allowing for taking advantages in occasional positive increases to revenue. Stabilized commodity pricing in agricultural products within the latest harvest season and continued involvement and expansion of the natural gas and oil industries provides a level of financial and taxable security in the upcoming year.

REQUESTS FOR INFORMATION

This financial report provides a general over view of Blaine County's finances for anyone interested in this government's finances. Question concerning any of the information provided in this report or requests for additional information should be addressed to:

Blaine County Clerk & Recorder's Office
P.O. Box 278
Chinook, MT 59523-0278

Or e-mail to: sboardman@blainecounty-mt.gov

Blaine County

GOVERNMENT-WIDE STATEMENT OF NET POSITION

as of June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Pooled cash and investments	\$ 11,170,039
Taxes and assessments receivables	218,696
Capital assets, net of accumulated depreciation	9,551,351
Capital assets, not being depreciated	<u>746,828</u>
Total Assets	21,686,914
LIABILITIES	
Accounts payable and other current liabilities	619
Compensated absences	315,271
Other post-employment benefits liability	<u>793,137</u>
Total liabilities	1,109,027
NET POSITION	
Net investment in capital assets	10,298,179
Restricted for:	
General government	53,930
Public safety	383,165
Public works	1,076,889
Public health	166,796
Social and economic services	23,703
Conservation of natural resources	2,000
Unrestricted	<u>8,573,225</u>
Total net position	<u><u>\$ 20,577,887</u></u>

The accompanying notes are an integral part of these financial statements.

Blaine County

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

for the year ended June 30, 2014

	Expenses	Program Revenues			Net revenue (expense) and changes in net position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
General government	\$ 2,855,469	\$ 126,788	\$ 5,253	\$ -	\$ (2,723,428)
Public safety	1,751,410	328,185	430,451	109,019	(883,755)
Public works	2,121,694	36,121	319,781	414,980	(1,350,812)
Public health	495,730	39,382	176,094	-	(280,254)
Social and economic services	109,003	-	-	-	(109,003)
Culture and recreation	447,194	48,994	10,163	-	(388,037)
Housing and community development	36,506	-	-	-	(36,506)
Conservation and natural resources	32,359	-	8,425	-	(23,934)
Miscellaneous	897	52,920	-	-	52,023
Total governmental activities	\$ 7,850,262	\$ 632,390	\$ 950,167	\$ 523,999	(5,743,706)
General revenues:					
Property taxes and assessments, levied for general purposes					2,551,643
Local option taxes					180,257
Unrestricted federal shared revenue					1,027,493
Unrestricted state shared revenue					1,247,820
Miscellaneous revenues					118,419
Unrestricted investment earnings					60,467
Gain (loss) on sale of capital assets					2,871
Total general revenues					5,188,970
Change in net position					(554,736)
Net position, beginning					21,132,623
Net position, ending					<u><u>\$ 20,577,887</u></u>

The accompanying notes are an integral part of these financial statements.

Blaine County

GOVERNMENTAL FUNDS BALANCE SHEET

as of June 30, 2014

	General Fund	Road Fund	P.I.L.T. Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	\$ 2,094,580	\$ 502,286	\$ 4,162,117	\$ 4,411,056	\$ 11,170,039
Taxes and assessments receivable	84,226	27,889	-	106,581	218,696
Total assets	<u>\$ 2,178,806</u>	<u>\$ 530,175</u>	<u>\$ 4,162,117</u>	<u>\$ 4,517,637</u>	<u>\$ 11,388,735</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ 619	\$ -	\$ -	\$ -	\$ 619
Total liabilities	619	-	-	-	619
Deferred inflows of resources:					
Unavailable tax revenues	84,226	27,889	-	106,581	218,696
Total deferred inflows of resources	84,226	27,889	-	106,581	218,696
Fund balances:					
Restricted for:					
General government	-	-	-	53,930	53,930
Public safety	-	-	-	383,165	383,165
Public works	-	502,286	-	546,714	1,049,000
Public health	-	-	-	166,796	166,796
Social and economic services	-	-	-	23,703	23,703
Conservation of natural resources	-	-	-	2,000	2,000
Committed for:					
Capital outlay, repairs & maintenance	-	-	2,039,437	195,145	2,234,582
Assigned for:					
General government	-	-	-	566,611	566,611
Public safety	-	-	-	193,709	193,709
Public works	-	-	-	720,976	720,976
Public health	-	-	-	4,829	4,829
Social and economic services	-	-	-	214,176	214,176
Culture and recreation	-	-	-	108,486	108,486
Conservation of natural resources	-	-	-	34,907	34,907
Capital outlay	-	-	-	3,318,589	3,318,589
Unassigned	2,093,961	-	2,122,680	(2,122,680)	2,093,961
Total fund balances	<u>2,093,961</u>	<u>502,286</u>	<u>4,162,117</u>	<u>4,411,056</u>	<u>11,169,420</u>
Total liabilities and fund balances	<u>\$ 2,178,806</u>	<u>\$ 530,175</u>	<u>\$ 4,162,117</u>	<u>\$ 4,517,637</u>	<u>\$ 11,388,735</u>

The accompanying notes are an integral part of these financial statements.

Blaine County

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
as of June 30, 2014

Total fund balance, governmental funds	\$ 11,169,420
Amounts reported for governmental activities in the statement of net position differ because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements. The total cost of capital assets not reported above, net of accumulated depreciation.	10,298,179
Property taxes receivable were assessed this year, but are not available to meet current obligations, and therefore are unavailable in the funds.	218,696
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at ear-end consist of compensated absences of \$315,271 and other post employment benefits obligations of \$793,137 .	<u>(1,108,408)</u>
Net position of governmental activities in the statement of net position	<u><u>\$ 20,577,887</u></u>

The accompanying notes are an integral part of these financial statements.

Blaine County

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
for the year ended June 30, 2014

	General Fund	Road Fund	P.I.L.T. Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes and assessments	\$ 1,045,278	\$ 422,386	\$ -	\$ 1,246,178	\$ 2,713,842
Licenses and permits	1,530	-	-	-	1,530
Intergovernmental revenues	943,163	392,901	936,960	1,568,068	3,841,092
Charges for services	318,574	-	-	167,753	486,327
Fines and forfeitures	52,920	-	-	-	52,920
Miscellaneous revenues	22,662	1,092	606	94,059	118,419
Investment and royalty earnings	39,429	14,498	-	6,540	60,467
Total revenues	<u>2,423,556</u>	<u>830,877</u>	<u>937,566</u>	<u>3,082,598</u>	<u>7,274,597</u>
EXPENDITURES					
General government	1,623,108	-	200,085	894,651	2,717,844
Public safety	1,280,126	-	68,537	147,458	1,496,121
Public works	-	827,024	66,161	908,918	1,802,103
Public health	174,184	-	-	301,469	475,653
Social and economic services	6,150	-	-	95,429	101,579
Culture and recreation	25,913	-	28,396	352,314	406,623
Conservation and natural resources	-	-	-	30,755	30,755
Miscellaneous	897	-	-	-	897
Capital outlay	148,601	-	280,324	828,475	1,257,400
Total Expenditures	<u>3,258,979</u>	<u>827,024</u>	<u>643,503</u>	<u>3,559,469</u>	<u>8,288,975</u>
Excess (deficiency) of revenues over expenditures	(835,423)	3,853	294,063	(476,871)	(1,014,378)
OTHER FINANCING SOURCES (USES)					
Proceeds from asset disposals	-	10,788	-	-	10,788
Transfers in	467	-	-	321,125	321,592
Transfers out	-	-	(34,000)	(287,592)	(321,592)
Total other financing sources (uses)	<u>467</u>	<u>10,788</u>	<u>(34,000)</u>	<u>33,533</u>	<u>10,788</u>
Net change in fund balances	(834,956)	14,641	260,063	(443,338)	(1,003,590)
Fund balances, beginning	2,928,917	487,645	3,902,054	4,854,394	12,173,010
Fund balances, ending	<u>\$ 2,093,961</u>	<u>\$ 502,286</u>	<u>\$ 4,162,117</u>	<u>\$ 4,411,056</u>	<u>\$ 11,169,420</u>

The accompanying notes are an integral part of these financial statements.

Blaine County

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-
WIDE STATEMENT OF ACTIVITIES

for the year ended June 30, 2014

Net change in fund balance, total governmental funds: \$ (1,003,590)

Amounts reported for governmental activities in the statement of activities differ because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$1,257,400 exceeded depreciation \$592,589 in the current period. 664,811

In the statement of activities the gain on the sale of capital assets is recognized, however the fund financial statements recognize the entire proceeds from the sale of the assets. This is the net book value of the assets which were disposed. (7,917)

Some property taxes will not be collected for several months after the County's fiscal year-end, and therefore are not considered as "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities. 18,055

In the statement of activities, certain operating expenses including compensated absences (vacations and sick leave) and other post employment benefits (retiree health insurance) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). (226,095)

Change in net position of governmental activities \$ (554,736)

The accompanying notes are an integral part of these financial statements.

Blaine County

STATEMENT OF FIDUCIARY NET POSITION AND STATEMENT OF CHANGES IN
FIDUCIARY NET POSITION
as of and for the year ended June 30, 2014

STATEMENT OF FIDUCIARY NET POSITION

	Investment Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Pooled cash and investments	\$ 13,810,558	\$ 464,398
Taxes receivable, net	-	422,101
Total assets	<u>13,810,558</u>	<u>886,499</u>
LIABILITIES		
Accounts payable and other liabilities	-	89,697
Protested taxes payable	-	244,567
Due to other governments	-	552,235
Total liabilities	<u>-</u>	<u>886,499</u>
Net position held in trust for pool participants	<u>\$ 13,810,558</u>	<u>\$ -</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	Investment Trust Fund
	<u> </u>
ADDITIONS	
Contributions to pooled investments	\$ 20,637,420
Investment earnings	34,795
Total additions	<u>20,672,215</u>
DEDUCTIONS	
Distributions from pooled investments	<u>19,870,690</u>
Total deductions	<u>19,870,690</u>
Change in net position held in trust	801,525
Net position held in trust for pool participants, beginning	<u>13,009,033</u>
Net position held in trust for pool participants, ending	<u>\$ 13,810,558</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Blaine County (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to counties and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting policies are described below:

1. Reporting entity. The county is a political subdivision of the state of Montana governed by a three member board of commissioners duly elected by the registered voters of the county.

Blaine County provides various financial services to other governmental entities located within the County. The County serves as the billing agent, cashier and treasurer for tax and assessment collections for various taxing jurisdictions. The County also serves as a bank for such agencies as school districts, irrigation districts, rural fire districts, and other special purpose districts. The funds collected and held by the County for other entities are accounted for in agency funds. Funds collected for incorporated cities and towns are remitted monthly to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds for which the County is financially accountable. The County has also considered all other potential organizations for which the nature and significance of their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. The criteria include appointing a majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the County. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

School districts and other independent taxing units are reflected only in the statement of fiduciary net position and statement of changes in fiduciary net position as investment trust funds agency funds, since the County is responsible, by law, for the collection of taxes and/or the maintenance of cash funds for these entities.

2. Government-Wide financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the County. For the most part, the effect of material inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The County has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program or function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

3. Fund financial statements. The County uses funds to report on its financial position and results of its operations. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Cod. Sec. 2200.159 *Focus on Major Funds*, sets forth criteria (percentage of assets, liabilities,

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Fund financial statements, continued. revenues or expenditures/expenses of either fund category) for the determination of major funds.
4. Fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. Funds are classified into two categories: governmental and fiduciary. Each category is then divided into separate fund types as follows:

Governmental Funds: Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is on the sources, uses and balance of current financial resources. Governmental fund types are those funds through which most governmental functions typically are financed and consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

The following comprise the County's major governmental funds:

General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Road Fund is a special revenue fund used to account for costs related to road and street construction, reconstruction, improvements, additions and maintenance of County roads funded by specific tax levy dollars and various outside earned revenues.

Payment in Lieu of Taxes Fund is a special revenue fund used for collection of money from the federal government based on tax base lost because of federally owned land within the County. The board of commissioners has adopted a resolution committing the at least 49% of the payments in lieu of taxes to be used for capital outlay and repairs and maintenance of the County's capital assets.

Fiduciary Funds: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for others and are therefore not available to support programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to businesses in the private sector. Fiduciary funds consist of private-purpose trust funds, pension trust funds, investment trust funds and agency funds. Investment trust funds are utilized to account for investments held by the County for other agencies in individual investment accounts or as the external portion of a pool. At June 30, 2014 all Investment Trust Funds were held in an investment pool. Agency funds are primarily clearing devices for cash collected for other governments or agencies and is distributed within a short period of time.

5. Measurement focus and basis of accounting. The financial statements of the County are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) standards as published in the Codification of Governmental Accounting and Financial Reporting Standards (GASB Cod.).

The government-wide financial statements are reported using the economic resources measurement focus and

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Measurement focus and basis of accounting, continued. the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, while grants and similar items are recognized as revenue upon grantor eligibility requirements being met. Generally, the effect of material inter-fund activity has been removed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The County recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue and charges for services. 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.

The County reports advances from grantors as liabilities on its government-wide statement of net position and on its governmental funds balance sheet. The County also reports deferred inflows of resources resulting from unavailable tax revenues on its governmental funds balance sheet. These amounts arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period or when resources are received by the County before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the related liability or deferred inflows of resources, as appropriate, is removed from the balance sheet and revenue is recognized.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

6. Cash and Pooled Investments. Except where otherwise required, the County maintains all deposits in bank and investment accounts in the name of the County. These deposits are invested on a short term basis with interest income being recorded in the general fund, except for interest income allocated to enterprise funds

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

6. Cash and pooled investments, continued. and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the County Treasurer. The provisions of GASB Cod. Section I50.105, *Accounting and Financial Reporting for Investments*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Cod. Section I50.105, the County has stated investments at cost, which approximates the fair value.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the State of Montana Short-Term Investment Pool (STIP); direct obligations of the United States Government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

7. Property taxes receivable. Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified. The current taxes receivable represents the levy based on the assessed valuations as of January 1 for all real property located in the County. Taxes are normally billed in October and payable in two installments on November 30 and May 31.

Delinquent real property taxes attach as a lien on the property as of January 1. Personal property taxes are assessed and billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based upon levies set during August of the prior year. These taxes become delinquent thirty days after billing. Delinquent personal property taxes may become a lien on the property of the owner of the personal property. Property taxes receivable at June 30, 2014 consist primarily of delinquent property taxes from prior years' levies and are offset by unavailable tax revenues in the fund financial statements. The County does not record an allowance for uncollectible taxes because it is considered to be immaterial.

Taxes and assessments that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. Real property on which taxes and assessments remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

8. Inventories. The costs of inventory items such as fuel, lumber and bridge plank are recorded as expenditures when purchased. The balance on hand at year-end is not material.
9. Capital assets. Capital assets, including land, buildings, improvements, and equipment assets, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. If no historical records exist, capital assets are recorded at estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The County has chosen to only record infrastructure assets on a prospective basis beginning July 1, 2003. Minimum cost for capitalization and estimated useful lives have not been established for infrastructure assets and depreciation expense has not been recorded for the current year additions, which is immaterial to the basic financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements and equipment assets are depreciated using the straight-line

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

9. Capital assets, continued. method of depreciation over the following estimated useful lives:

<u>Assets:</u>	<u>Years</u>
Buildings	50-100
Equipment	5-25
Vehicles	5-10

10. Deferred inflows of resources. In addition to liabilities, the governmental funds balance sheet may report a separate section for deferred inflows of resources. This is a separate financial statement element representing an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. Unavailable tax revenue is the only item the County has of this type. Accordingly, unavailable tax revenue, which only arises under the modified accrual basis of accounting, is reported as deferred inflows of resources on the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period the amounts become available.

11. Interfund transactions. Transactions among County funds that would be treated as revenues and expenditures or expenses if they involved organizations external to County government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

11. Warrants payable. The County pays its claims by issuing a warrant ordering the County Treasurer to pay for the warrant presentation.

12. Compensated Absences. County employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Upon death or retirement, the total accumulated hours for vacation leave and 25% of the total accumulated hours for sick leave, is paid at the then effective hourly rate for that employee. For governmental fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

13. Long-term obligations. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. The entire portion of such obligations is reported in the government-wide financial statements.

14. Fund balances. The GASB Cod. 1800.165-179 *Fund Balance Reporting* defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

14. Fund balances, continued. In the governmental fund financial statements, fund balances are reported in five classifications:

Nonspendable: Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted: Amounts that can only be spent for specific purposes either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by constitutional provisions or enabling legislation.

Committed: Amounts that can be used only for the specific purposes determined by a resolution (formal action) of the Board of County Commissioners (the County's highest level of decision making authority) and does not lapse at year end.

Assigned: Amounts intended to be used by the government for specific purposes, under the direction of the County Clerk and Recorder by authority granted by the Board of County Commissioners, but do not meet the criteria to classified as restricted or committed.

Unassigned: The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the County's policy, for purposes of fund balance classification, when restricted, committed, assigned or unassigned funds are available, expenditures will first be made from restricted, then from committed, then from assigned and lastly from unassigned fund balances.

14. Net position. Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets, represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use of assets either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability, if the liability will be liquidated with the restricted assets reported. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

15. Risk management. The County is exposed to a considerable number of risks of loss, including: (1) damage to and loss of property and contents, (2) employee torts, (3) professional liability (e.g. errors and omissions), (4) environmental damage, (5) worker's compensation (e.g. employee injuries) and (6) medical insurance costs of employees. Commercial policies transferring the risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts and professional liabilities. Given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for the property and content coverage where the guaranteed values have been increased

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

16. Risk Management, continued. to approximate replacement costs of the assets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The County has joined with other Montana counties in the Montana Association of Counties' (MACO) Insurance Pool, which provides worker's compensation coverage. The pool is limited to \$250,000 per incident or occurrence. The pool has purchased insurance coverage and an aggregate bond to cover claims in excess of \$250,000 per incident or occurrence. Audited financial statements for the MACO pool are available upon request.

17. Management estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires the County to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenues and expenditures during the reporting period. Significant estimates include the actuarial assumptions made in determining the other post-employment liability recorded under GASB Cod. P50.101-134. Actual results could vary from the estimates that were used.

NOTE B CASH AND INVESTMENTS

The provisions of GASB Cod. Section I50.105, *Accounting and Financial Reporting for Investments*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Cod. Section I50.105, the County has stated investments at cost, which approximates the fair value.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States Government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

All of the investments held in the Investment Trust Fund are held for external participants. Investment accounts held at June 30, 2014 include demand and time deposits, which are reported at cost, which approximates the fair value. Interest income earned on these investments is credited directly to the specific external participants that made the investment.

The composition of cash and investments on June 30, 2014, was as follows:

	<u>Maturity</u>	<u>Coupon</u>	<u>Fair Value</u>
Cash on hand			\$ 34,701
Cash in banks:			
Demand deposits		.01% - .25%	25,383,294
Time and savings deposits	< 1 year	0.50%	27,000
Total			<u>\$ 25,444,995</u>
Reconciliation:			
Government-wide statement of net position, governmental activities (primary government)			\$ 11,170,039
Fiduciary funds statement of net position, investment trust fund			13,810,558
Fiduciary funds statement of net position, agency funds			464,398
Total			<u>\$ 25,444,995</u>

continued

Blaine County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B CASH AND INVESTMENTS, continued

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Per Montana law 7-6-207, the local governing body may require security only for that portion of the deposits that is not guaranteed or insured according to law and, as to the unguaranteed or uninsured portion, to the extent of 50% of the deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more. As of June 30, 2014 the government's balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Uninsured and uncollateralized as acceptable per MT law 7-6-207.	9,872,566
	<u>\$ 9,872,566</u>

NOTE C PROPERTY TAXES

The County's real property tax is levied on the assessed value listed as of January 1 for all real property located within the County. Assessed values are established by the Montana Department of Revenue based on market value base. A reevaluation of all property is required to be completed on a periodic basis. Taxable value is defined by a State statute as a fixed percentage of assessed value. The County is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies for the year ended June 30, 2014 were within the legal limits.

The tax levies for the fiscal year ending June 30, 2014 were based on the taxable values of \$13,809,534 as of July 31, 2013. All property taxes are recognized in compliance with GASB Cod. P70 *Property Taxes* which states that such revenue is recorded when it becomes measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

NOTE D CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Transfers	Additions	Deletions	Balance June 30, 2014
Governmental Activities					
Land	\$ 34,103	\$ -	\$ -	\$ -	\$ 34,103
Construction in progress	304,018	(378,438)	787,145	-	712,725
Total capital assets not being depreciated	<u>\$ 338,121</u>	<u>\$(378,438)</u>	<u>\$ 787,145</u>	<u>\$ -</u>	<u>\$ 746,828</u>
Other Capital Assets					
Building & improvements	\$ 4,992,964	378,438	\$ -	\$ -	\$ 5,371,402
Machinery & equipment	7,738,664	-	470,255	(95,980)	8,112,939
Infrastructure	2,228,409	-	-	-	2,228,409
Total at historical cost	14,960,037	378,438	470,255	(95,980)	15,712,750
Less accumulated depreciation	(5,656,870)	-	(592,589)	88,060	(6,161,399)
Depreciable capital assets, net	<u>\$ 9,303,167</u>	<u>\$ 378,438</u>	<u>\$(122,334)</u>	<u>\$ (7,920)</u>	<u>\$ 9,551,351</u>

continued

Blaine County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE D CAPITAL ASSETS, continued

Depreciation expense was allocated to functions as follows:

General government	\$ 57,713
Public safety	207,782
Public works	253,798
Public health	3,066
Social and economic services	5,066
Culture and recreation	28,658
Housing and community development	36,506
	<u>\$ 592,589</u>

NOTE E NON-CURRENT LIABILITIES

Non-current liability balances and activity for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Other post employment benefits	\$ 537,454	\$ 255,683	\$ -	\$ 793,137
Compensated absences payable	344,859	-	29,588	315,271
Total	<u>\$ 882,313</u>	<u>\$ 255,683</u>	<u>29,588</u>	<u>\$ 1,108,408</u>

The current portion of compensated absences has not been separately stated due to the indeterminate nature of the liability. Employees are allowed to accrue compensated absences indefinitely, subject to certain dollar limits, and use it at their discretion.

NOTE F ANALYSIS OF INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 were made up of the following amounts:

	Transfers out:			Total
	General Fund	PILT	Other Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ -	\$ 467	\$ 467
Other Governmental Funds	-	34,000	287,125	321,125
	<u>\$ -</u>	<u>\$ 34,000</u>	<u>\$ 287,592</u>	<u>\$ 321,592</u>

The County's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G RETIREMENT AND PENSION PLANS

The County participated in two multi-employer cost-sharing retirement plans which cover all employees, except part-time employees. The Sheriff's Retirement System (SRS) covers the Sheriff and Deputy Sheriffs, the Teachers Retirement System (TRS) covers the County Superintendent of Schools and the Public Employee's Retirement System (PERS) covers all other employees who qualify to be covered. The plans are established by State law and are administered by the Department of Administration of the State of Montana.

Sheriff's Retirement System (SRS):

SRS is a statewide retirement plan established by the State of Montana in 1974 and governed by Title 19, Chapter 7 of the Montana Code Annotated providing retirement services to all persons in Montana employed in the sheriff's department. SRS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employee's Retirement Division (PERD).

The SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for a normal retirement benefit. The service retirement benefit is calculated as follows: 2.5% of the member's highest average compensation (HAC) for each year of service credit. The HAC is the average of a set number of highest consecutive months of salary, which is 36 months for members hired before July 1, 2011 and 60 months for members hired on or after July 1, 2011. After five years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding is provided by participating governmental units and their employees. The County's required contribution to this plan for the year ended June 30, 2014 was \$39,832 (10.115% of payroll). The County's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$36,406 (9.245% of payroll). Total payroll for sheriff and deputies was \$393,786. One hundred percent of the required contributions for the employer and employees were made for the current year and the preceding two years. Contributions were \$76,238, \$75,741, and \$76,156 for the fiscal years ending June 30, 2014, 2013 and 2012, respectively.

The SRS financial information is reported in the Public Employee's Retirement Board's Comprehensive Annual Financial Report for the Fiscal year-end. It is available from PERD at 100 North Park Avenue, Suite 100, PO Box 200131, Helena, MT 59620-0139, (406) 444-3154.

Teacher's Retirement System (TRS):

TRS is a statewide retirement plan established by the State of Montana in 1937 and governed by Title 19, Chapter 20 of the Montana Code Annotated providing retirement services to all persons in Montana employed as teachers or professional staff of any public elementary or secondary school, college of technology or unit of the university system. TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teacher's Retirement Board.

TRS provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to 1/60 times creditable service years times the average final compensation. Final compensation is the average of the highest 3 consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire between the ages of 50 and 60 and receive reduced retirement benefits.

Funding is provided by participating governmental units and their employees. The County's contribution to this plan for the year ended June 30, 2014 was \$3,808 (8.47% of payroll). The County's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G RETIREMENT AND PENSION PLANS, continued

\$3,664 (8.15% of payroll). Total payroll for teaching employees was \$44,953. One hundred percent of the required contributions were made for the current year and the preceding two years. The required contributions were \$7,472, \$6,514, and \$6,255 for the fiscal years ending June 30, 2014, 2013 and 2012, respectively. The State of Montana contributes .11% of the employee's compensation. The state's "on-behalf" contribution was \$49 and was not recognized in the County's financial statements.

The TRS financial information is reported in the Teacher's Retirement system, a component unit of the State of Montana, annual report for the fiscal year end. It is available from TRS, 1500 E. Sixth Avenue, PO Box 200139, Helena, MT 59620-0139, (406) 444-3150.

Public Employee's Retirement System (PERS):

PERS is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employee's Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Annual retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Member's rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding is provided by participating governmental units and their employees. The County's required contribution to this plan for the year ended June 30, 2014 was \$200,306 (8.07% of payroll). The County's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$196,030 (7.90% of payroll). Total payroll for employees covered by PERS was \$2,484,532. One hundred percent of required contributions for both the employer and employees were made for the current and preceding two years. Contributions were \$396,336, \$309,469, and \$321,629 for fiscal years ending June 30, 2014, 2013 and 2012, respectively. The State of Montana contributes .10% of the employee's compensation. The state's "on-behalf" contribution was \$2,485 and was not recognized in the County's financial statements.

The PERS financial information is reported in the Public Employee's Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 North Park Avenue, Suite 100, PO Box 200139 Helena, MT 59620-0139, (406) 444-3154.

NOTE H LOCAL RETIREMENT PLAN

Employees of the County may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to regular employees of the County. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by Waddell and Reed and the National Association of Counties. In July 1998 the plan was restated to place it in compliance with The Small Business Protection Act of 1996. After that time, the assets of the plan are held by the plan trust for the exclusive benefit of participants and beneficiaries, and are

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H LOCAL RETIREMENT PLAN, continued

not subject to the claims of the County's creditors. Plan assets cannot be used by the County for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

NOTE I JOINT VENTURES & INTERLOCAL AGREEMENTS

The following agreements are described as interlocal agreements between the governmental entities involved. These agreements do not qualify as 'Joint Ventures,' which require that the participants have an ongoing financial interest or ongoing financial responsibility, and that the participants have joint control. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

Unified Disposal District. The Unified Disposal District is operating under an interlocal agreement between Hill County, Blaine County, the City of Chinook, the City of Harlem, and the Chouteau County Refuse District No. 1. The District was formed for the purpose of coordinating solid waste collections and disposal for the parties participating in the agreement. The Unified Disposal Board has twelve members, which are appointed by the governing bodies of the various entities involved.

The Unified Disposal District is financed by user charges to the residents in the District. Revenues generated from these charges are deposited with Hill County for administration of the program. Expenditures made by the District are first approved by the Unified Disposal Board prior to transmittal to the Hill County auditor for processing and payment. The Unified Disposal District is considered to be a component unit of Hill County.

If any of the Districts should wish to terminate their participation in this agreement that District is required to give at least one year written notice of their intent to withdraw. The Districts continuing with the Unified Board will have an option to buy the terminating District's share, which shall be the proportionate interest of the Net Position of the unified board determined by appraisal at the time of withdrawal. If all Districts should wish to terminate, proceeds of any sale or distribution of the assets of the entity shall be split according to the proportionate interest the withdrawing Districts have in the entire district. The most current audited summary financial information for the Unified Disposal District are available upon request.

Law Enforcement Services. The Blaine County Sheriff's Department provides law enforcement services to the City of Harlem under the terms of an interlocal agreement that was executed on December 30, 2013. The County will provide all personnel, equipment, facilities, and supplies as necessary and the City of Harlem will pay \$163,360 for the fiscal year ending June 30, 2014. There will be a 3% increase beginning each July 1 through June 20, 2017. The agreement may be terminated by either party with six months written notice.

NOTE J RELATED ORGANIZATIONS

A related organization is an organization for which the primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the primary government appoints a voting majority of the organization's governing board. The County's cemetery districts fall under this definition and as such, the activities of the cemetery districts are not included in the financial statements of the County.

NOTE K RELATED PARTY TRANSACTIONS

Bear Paw Development. A non-profit corporation governed by a thirteen-member board of directors. One of the Blaine County Commissioners is a member of the board of directors of Bear Paw Development. During the year ended June 30, 2014, the County paid Bear Paw Development \$13,779 for management assistance for federally funded projects.

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE K RELATED PARTY TRANSACTIONS, continued

Blaine County Airport Commission. Established by a Joint Resolution of the County Commissioners of Blaine County, the City Council of the City of Chinook and the City Council of the City of Harlem, on June 29, 1946.

The Commission is governed by five commissioners; one of whom is appointed by the Blaine County Commissioners; two of whom are appointed by the Mayor of the City of Chinook subject to the approval of the Chinook City Council; and two of whom are appointed by the Mayor of the City of Harlem subject to the approval of the Harlem City Council. The Commission retains ownership of airport real property, buildings and improvements and remains liable for all related obligations. The County levies and collects an annual tax and remits the proceeds to the Blaine County Airport Commission. During the fiscal year ended June 30, 2014, the County collected \$678,567 and remitted \$659,836. At June 30, 2014 the Airport Commission had \$184,649 in the County's investment trust fund.

NOTE L CONTINGENT LIABILITIES

The County is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the County.

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN

The County provides continuation of medical coverage to its retiring employees, as required under Montana State Law (MCA 2-18-704). A retiree who retires with the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) or Sheriff's Retirement System (SRS) is eligible to keep the County's health insurance as a retiree until age 65 or until the retiree is eligible for coverage under Medicare. The retiree can then elect to keep the plan as a secondary insurance. Retirement eligibility is determined based on a minimum of reaching age 50 with at least 5 years of membership with a TRS, PERS, or SRS employer. The retirees, along with surviving spouses and dependents, are on the same medical plan as the County's active employees as long as they pay the same premium. Other postemployment benefits arises from the difference in the County's medical insurance cost the retirees are incurring and what they would otherwise be paying on the open market for a similar plan. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the County has calculated and reported a postemployment benefit liability.

Plan Description. The County's plan is a single-employer defined benefit healthcare plan.

Funding Policy. The contribution requirement of plan members is established by the County's insurance committee in conjunction with the insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. A trust fund for future liabilities has not been established.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to Blaine County's Post Retirement Healthcare Plan:

continued

Blaine County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN, continued

Annual required contribution	\$ 255,683
Interest on net OPEB obligation	-
Adjusted to annual required contribution	-
	<hr/>
Annual OPEB cost (expense)	255,683
Contributions made	-
	<hr/>
Increase in net OPEB obligation	255,683
Net OPEB obligation - beginning of year	537,454
	<hr/>
Net OPEB obligation - end of year	<u>\$ 793,137</u>

The three year disclosure of the County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is shown in the table below:

Fiscal Year Ended	Annual OPEB Cost (AOE)	Estimated Contribution as a Percentage of AOE*	Net OPEB Obligation at End of Year**
6/30/2012	\$ 98,670	0.0%	\$ 281,771
6/30/2013	\$ 255,683	0.0%	\$ 537,454
6/30/2014	\$ 255,683	0.0%	\$ 793,137

* Equals estimated actual incurred claims plus administration less retiree contributions as a percentage of AOE.

** Equals prior year Net OPEB obligation plus current year AOE less estimated current year contributions.

Funded Status and Funding Progress. As of June 30, 2014, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$1,485,575. The County's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$2,919,701 and the ratio of the UAAL to the covered payroll was 50.9%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used included techniques that are designed to reduce the effects of short-term

continued

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE M POST-EMPLOYMENT HEALTHCARE PLAN, continued

volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the most recent valuation, the Projected Unit Credit (PUC) actuarial cost method is used. The actuarial assumptions included a 0.25% discount rate assuming the County will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 100% of future retirees will elect medical coverage. The annual healthcare cost trend rate of 3.90% for medical, increasing approximately .3% per year until reaching an ultimate rate of 6.60%. It was assumed salary increases will be 2.8% annum. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

NOTE N SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclose within the audited financial statements for the year ended June 30, 2014. Management has performed this analysis through March 24, 2015, which is the date of these financial statements were available to be issued. No additional disclosures were required.

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REQUIRED SUPPLEMENTARY INFORMATION

Blaine County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

GENERAL FUND

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance
REVENUES				
Taxes and assessments	1,076,010	\$ 1,076,010	\$ 1,045,278	\$ (30,732)
Licenses and permits	1,600	1,600	1,530	(70)
Intergovernmental revenues	1,451,449	1,451,449	943,163	(508,286)
Charges for services	292,203	292,203	318,574	26,371
Fines and forfeitures	40,700	40,700	52,920	12,220
Miscellaneous revenues	7,400	7,400	22,662	15,262
Investment and royalty earnings	57,000	57,000	39,429	(17,571)
Total revenues	<u>2,926,362</u>	<u>2,926,362</u>	<u>2,423,556</u>	<u>(502,806)</u>
EXPENDITURES				
General government	1,991,522	2,008,522	1,623,108	(385,414)
Public safety	1,399,264	1,393,964	1,280,126	(113,838)
Public health	176,804	176,804	174,184	(2,620)
Social and economic services	12,000	12,000	6,150	(5,850)
Culture and recreation	29,200	29,200	25,913	(3,287)
Miscellaneous	2,000	2,000	897	(1,103)
Capital outlay	716,414	727,914	148,601	(579,313)
Total expenditures	<u>4,327,204</u>	<u>4,350,404</u>	<u>3,258,979</u>	<u>(1,091,425)</u>
Excess (deficiency) of revenues over expenditures	(1,400,842)	(1,424,042)	(835,423)	588,619
OTHER FINANCING SOURCES (USES)				
Transfers in	751	751	467	(284)
Transfers out	(64,991)	(64,991)	-	64,991
Total other financing sources and uses	<u>(64,240)</u>	<u>(64,240)</u>	<u>467</u>	<u>64,707</u>
Net change in fund balances	<u>(1,465,082)</u>	<u>(1,488,282)</u>	<u>(834,956)</u>	<u>653,326</u>
Fund balances, beginning of year			2,928,917	
Fund balances, end of year			<u>\$ 2,093,961</u>	

The accompanying notes are an integral part of these schedules.

continued

Blaine County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

ROAD FUND				
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance
REVENUES				
Taxes and assessments	433,900	\$ 433,900	\$ 422,386	\$ (11,514)
Intergovernmental revenues	333,148	333,148	392,901	59,753
Miscellaneous revenues	100	100	1,092	992
Investment and royalty earnings	14,800	14,800	14,498	(302)
Total revenues	<u>781,948</u>	<u>781,948</u>	<u>830,877</u>	<u>48,929</u>
EXPENDITURES				
Public works	925,500	925,500	827,024	(98,476)
Capital outlay	-	-	-	-
Total expenditures	<u>925,500</u>	<u>925,500</u>	<u>827,024</u>	<u>(98,476)</u>
Excess (deficiency) of revenues over expenditures	<u>(143,552)</u>	<u>(143,552)</u>	<u>3,853</u>	<u>147,405</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from disposal of capital assets	-	-	10,788	10,788
Interfund operating transfers out	(26,859)	(26,859)	-	26,859
Total other financing sources and uses	<u>(26,859)</u>	<u>(26,859)</u>	<u>10,788</u>	<u>37,647</u>
Net change in fund balances	<u>(170,411)</u>	<u>(170,411)</u>	14,641	<u>185,052</u>
Fund balances, beginning of year			487,645	
Fund balance, end of year			<u>\$ 502,286</u>	

The accompanying notes are an integral part of these schedules.

continued

Blaine County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

P.I.L.T. FUND				
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance
REVENUES				
Intergovernmental revenues	600,000	\$ 600,000	\$ 936,960	\$ 336,960
Miscellaneous revenues	-	-	606	606
Total revenues	<u>600,000</u>	<u>600,000</u>	<u>937,566</u>	<u>337,566</u>
EXPENDITURES				
General government	218,000	218,000	200,085	(17,915)
Public safety	129,600	129,600	68,537	(61,063)
Public works	203,241	203,241	66,161	(137,080)
Public health	28,571	28,571	-	(28,571)
Culture and recreation	32,000	32,000	28,396	(3,604)
Capital outlay	3,856,642	3,856,642	280,324	(3,576,318)
Total expenditures	<u>4,468,054</u>	<u>4,468,054</u>	<u>643,503</u>	<u>(3,824,551)</u>
Excess (deficiency) of revenues over expenditures	(3,868,054)	(3,868,054)	294,063	4,162,117
OTHER FINANCING SOURCES (USES)				
Interfund operating transfers in	-	-	-	-
Interfund operating transfers out	(34,000)	(34,000)	(34,000)	-
Total other financing sources and uses	<u>(34,000)</u>	<u>(34,000)</u>	<u>(34,000)</u>	<u>-</u>
Net change in fund balances	<u>(3,902,054)</u>	<u>(3,902,054)</u>	260,063	<u>4,162,117</u>
Fund balance, beginning of year			<u>3,902,054</u>	
Fund balance, end of year			<u>\$ 4,162,117</u>	

The accompanying notes are an integral part of these schedules.

continued

NOTES TO BUDGETARY COMPARISON SCHEDULES

June 30, 2014

NOTE A BUDGETED FUNDS

The County adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the first Thursday after the first Tuesday in September or within 30 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The County must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

NOTE B BUDGETARY BASIS

The County's budgets are prepared on the budget basis (modified accrual basis, including encumbrances, of which the county has none) of accounting, which results in accounting for certain transactions on a basis other than generally accepted accounting principles (modified accrual). The County's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the County's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget and the final budget, which includes amendments. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. Results of operations, on the budget basis of accounting, are presented for the general fund and major special revenue funds with legally adopted annual budgets, to provide a meaningful comparison of actual results with the budget.

Blaine County

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

June 30, 2014

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	June 30, 2010	\$ -	\$ 536,936	\$ 536,936	0.0%	2,383,619	0.0%
June 30, 2011	June 30, 2010	-	536,936	536,936	0.0%	2,693,597	19.9%
June 30, 2012	June 30, 2013	-	536,936	536,936	0.0%	2,738,433	19.6%
June 30, 2013	June 30, 2013	-	1,485,575	1,485,575	0.0%	2,919,701	50.9%
June 30, 2014	June 30, 2013	-	1,485,575	1,485,575	0.0%	2,923,272	50.8%

SUPPLEMENTAL INFORMATION

Blaine County

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2014

	Program Number (if available)	Federal CFDA	Federal Expenditures
<u>Department of the Interior</u>			
<i>Direct programs:</i>			
Challenge Cost Share	L10AC20556	15.238	\$ 75,563
Total Department of the Interior			<u>75,563</u>
<u>Department of Justice</u>			
Missing Childrens Assistance (ICAC)		16.543	1,802
Total Department of Justice			<u>1,802</u>
<u>Department of Transportation</u>			
<i>Direct programs:</i>			
Highway Safety Program STEP Grant		20.607	1,317
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	7710	20.205	45,106
<i>Subtotal pass-through programs</i>			<u>45,106</u>
Total Department of Transportation			<u>46,423</u>
<u>Department of Health and Human Services</u>			
<i>Passed through Montana Department of Public Health & Human Services:</i>			
Immunization Cooperative Agreements	13-07-4-31-102-0	93.268	3,661
Prevention and Public Health Funds	14-07-4-31-153-0	93.539	3,178
Public Health Emergency Program - Bioterrorism	14-07-6-11-004-0	93.069	30,137
CDC Investigations and Technical Assistance	13-07-3-01-089-0	93.283	92,442
Preventive Health and Health Services Block Grant	14-07-3-01-035-0	93.991	2,000
Maternal and Child Health Services	14-07-5-01-003-0	93.994	7,582
Total Department of Health and Human Services			<u>139,000</u>
<u>Department of Homeland Security</u>			
<i>Direct programs:</i>			
	EMW-2013-EP-		
Emergency Management Performance Grant	00044-501	97.042	54,031
Homeland Security Grant		97.067	225,827
<i>Subtotal direct programs</i>			<u>279,858</u>
<i>Passed through Montana Department of Military Affairs:</i>			
Disaster Grants - Public Assistance (FEMA)		97.036	109,019
<i>Subtotal pass-through programs</i>			<u>109,019</u>
Total Department of Homeland Security			<u>388,877</u>
Total Federal Awards			<u>\$ 651,665</u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2014

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Blaine County (the County) and is presented on the modified accrual basis of accounting including encumbrances, of which the County has none. 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 the preparation of, the financial statements.

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 County Commissioners
Blaine County
PO Box 278
Chinook, MT 59523

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Blaine County (the County) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as referenced in the table of contents, and have issued our report thereon dated March 24, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Blaine County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of County's internal control.

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 County'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 County'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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Helena, Montana
March 24, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Blaine County
PO Box 278
Chinook, MT 59523

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Blaine County (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2014. The County'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 the County'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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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 County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION

In our opinion, the County complied, in all material respects, with the 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 the County 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 of compliance, we considered the County's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 County'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

RESTRICTED USE

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.

Wipfli LLP

Helena, Montana
March 24, 2015

Blaine County

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number
97.067

Name of Federal Program or Cluster
Homeland Security Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

Section II Schedule of Findings in Accordance with GAGAS

None

Section III Federal Award Findings and Questioned Costs

None

Schedule of Prior Year Findings

None