

**FALLON COUNTY, MONTANA  
BAKER, MONTANA**

**FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2014**

**JAMES J. WOSEPKA, PC  
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BAKER, MONTANA**

**FALLON COUNTY, MONTANA  
BAKER, MONTANA  
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**COUNTY OF FALLON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

As the **County Commissioner's** of the **County of Fallon**, Baker, Montana we offer readers of **Fallon County's** discussion and analysis an overall review of the County's financial activities for the fiscal year ended **June 30, 2014**. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the transmittal letter, and the basic financial statements to help enhance their understanding of the County's financial performance.

**THE FINANCIAL HIGHLIGHTS:**

- **Fallon County's** assets exceeded its liabilities as of **June 30, 2014** by \$86,345,870 (net position). Of this amount, \$50,203,228 (unrestricted net position), may be used to meet the government's ongoing obligations to its citizens and its creditors.
- As of **June 30, 2014**, **Fallon County's** governmental funds reported combined ending net positions were \$77,062,665. Of this amount, \$47,200,968 (unrestricted net position), is available for spending at the government's discretion.
- As of **June 30, 2014**, **Fallon County's** Business-type funds reported combined ending fund balances of \$9,283,205. Of this amount, \$3,002,260 is available for spending at the government's discretion.
- **Fallon County's** total net change in fund balances for the Governmental Funds was \$2,457,130, largely due to oil and gas revenues and grants received.
- **Fallon County's** total cash balance on **June 30, 2014** was \$99,196,084 of which \$43,165,102 was held for other governmental entities.

**USING THIS AUDIT REPORT:**

This audit report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand **Fallon County** as a financial whole or as an entire operating entity. The statements also provide a detailed look at the specific financial conditions. More detailed information for certain funds, reported as "Major Funds" include (Governmental Funds): General (which is **Fallon County's** primary operating fund), Road, Bridge, and Capital Projects General. **Fallon County** also has three "Business-Type Activities", which are "Major Funds" which are the Solid Waste-Landfill, Solid Waste-Landfill Capital Projects and the Retirement Complex.

The Statement of Net Position and Statement of Activities provide information about the activities of the entire County. Net position is the difference between the assets and the liabilities. Over time, increases or decreases shown in the County's net position is one indicator of whether its financial health is improving or deteriorating. Another factor which is beneficial to all of **Fallon County** is the oil and gas revenues derived herein.

#### OVERVIEW OF THE FINANCIAL STATEMENTS:

**Government-wide Financial Statements:** The Statement of Net Position and Statement of Activities are designed to provide readers with a broad overview of **Fallon County's** finances in a similar to a private-sector business. Both of the government-wide financial statements distinguish functions of **Fallon County** that are primarily supported by various revenues such as taxes, non-tax revenues such as oil and gas revenue, grants, intergovernmental revenues, charges for services, fines and forfeiture (referred to as "governmental activities"). These two statements report the County's net position and changes in them. The County's net position, (the difference between assets and liabilities), is one way to measure the financial status of the County. By watching the increases and decreases in the County's net position, the reader will note the County's improvement or deterioration. The Statement of Net Position and the Statement of Activities distinguishes between the following activities:

- **Governmental Activities** – Most of the County's basic services are reported here, including general administration, public safety, public works, and health. Property taxes, local option vehicle taxes, state and federal grants and oil and gas revenues finance most of these activities.
- **Business-Type Activities** – The County charges a fee to customers to recover the cost of certain services provided and are maintained on the full accrual basis. The County's Coral Creek Landfill, the Ambulance Service and Parkview Retirement Complex are the activities reported here.

The County maintains three different types of funds: Governmental, Proprietary and Internal Service Funds, which use different accounting approaches.

#### **Fund Financial Statements:**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. **Fallon County**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County funds can be divided into three categories: Governmental, Proprietary, and Internal Service Funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

However, unlike the government-wide financial statements, governmental funds focus on near term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in reconciliations.

**Proprietary funds - Fallon County** maintains these Enterprise funds to report functions presented as business-type activities in the government-wide financial statements. The County uses Enterprise funds to account for the Coral Creek Landfill and the Parkview Retirement Complex (major fund) and the Ambulance Service (which is not reported as a major fund).

**Internal Service Funds** - These funds account for services provided, (Health Insurance), by the government to its various departments or agencies or to other governments, on a cost recovery basis.

**Notes To The Basic Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-31 of this report.

**Required Supplementary Information** - This information provides the budget to actual comparisons for the major governmental funds.

**Other Supplementary Information** - This information is the budget to actual for the non-major governmental funds.

## THE GOVERNMENT AS A WHOLE

### NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	\$48,500,624	\$50,098,003	\$4,636,663	\$3,733,865	\$53,137,287	\$53,802,168
Capital Assets	\$24,491,118	\$27,383,539	\$5,049,382	\$5,922,744	\$29,540,500	\$33,306,283
<b>Total Assets</b>	<b>\$72,991,742</b>	<b>\$77,451,842</b>	<b>\$9,686,045</b>	<b>\$9,656,609</b>	<b>\$82,677,786</b>	<b>\$87,108,451</b>
Other Liabilities	\$2,812	\$3,000	\$3,468	\$2,678	\$6,281	\$5,678
Long-term Liabilities	\$344,618	\$386,176	\$335,233	\$370,726	\$679,851	\$756,902
Outstanding						
<b>Total Liabilities</b>	<b>\$347,430</b>	<b>\$389,176</b>	<b>\$338,702</b>	<b>\$373,404</b>	<b>\$686,132</b>	<b>\$762,580</b>
<b>Net Position:</b>						
Net Investment in capital assets	2013	2014	2013	2014	2013	2014
Restricted	\$24,491,118	\$27,383,539	\$5,049,382	\$5,922,744	\$29,540,500	\$33,306,283
Unrestricted	\$1,930,187	\$2,478,158	\$0	\$358,201	\$1,930,187	\$2,836,359
<b>Total Net Position</b>	<b>\$46,223,007</b>	<b>\$47,200,968</b>	<b>\$4,310,409</b>	<b>\$3,002,260</b>	<b>\$50,520,968</b>	<b>\$50,203,228</b>
	\$72,644,312	\$77,062,665	\$9,347,343	\$9,283,205	\$81,991,654	\$86,345,870

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. **Fallon County's assets exceeded its liabilities by \$86,345,870 at fiscal year-end, June 30, 2014.**

An additional portion of Fallon County's net position, a small percentage represents resources that are subject to external restrictions on how they may be used. The greater balance of unrestricted net position \$50,203,228 may be used to meet the government's ongoing obligations to citizens and creditors.

**CHANGE IN NET POSITION**

Governmental Activities		Business-Type Activities		Total	
2013	2014	2013	2014	2013	2014

**REVENUES**

**Program Revenues**

Charges for Services	\$1,838,071	\$680,536	\$953,288	\$1,069,711	\$2,791,359	\$1,750,247
Operating Grants and Contributions	\$1,172,950	\$2,038,766	\$133,838	\$0	\$1,306,788	\$2,038,766
Capital Grants and Contributions	\$2,880,843	\$512,923	\$0	\$0	\$2,880,843	\$512,923

**General Revenues**

Taxes	\$4,552,466	\$5,322,051	\$17	\$0	\$4,552,466	\$5,322,051
Licenses & Permits	\$452	\$277	\$0	\$0	\$452	\$277
Unrestricted Fed/State Shared Revenues	\$10,217,595	\$10,189,497	\$0	\$207,341	\$10,217,595	\$10,396,838
Unrestricted Inv. Earnings	\$315,594	\$380,946	\$1,575	\$4,660	\$317,169	\$385,606
Misc	\$220,409	\$1,030,775	\$0	\$0	\$220,409	\$1,030,775
Gain on Sale of Capital Assets	\$31,267	\$22,707	\$48	\$535	\$31,315	\$23,242
Transfers	\$0	\$0	\$0	\$0	\$0	\$0
Special Items	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Revenues</b>	<b>\$21,229,646</b>	<b>\$20,178,478</b>	<b>\$1,088,749</b>	<b>\$1,282,247</b>	<b>\$22,318,395</b>	<b>\$21,460,725</b>

**EXPENSES**

General Government	\$1,924,888	\$2,251,460	\$0	\$0	\$1,924,888	\$2,251,460
Public Safety	\$2,972,416	\$1,575,124	\$0	\$0	\$2,972,416	\$1,575,124
Public Works	\$5,030,274	\$5,288,890	\$0	\$0	\$5,030,274	\$5,288,890
Public Health	\$1,317,266	\$3,695,777	\$0	\$0	\$1,317,266	\$3,695,777
Social & Economic Services	\$524,598	\$623,006	\$0	\$0	\$524,598	\$623,006
Culture & Recreation	\$2,359,524	\$2,022,361	\$0	\$0	\$2,359,524	\$2,022,361
Housing &	\$219,441	\$260,391	\$0	\$0	\$219,441	\$260,391

Community Development					
Hospital	\$0	\$0	\$0	\$0	\$0
Retirement Home	\$0	\$0	\$192,989	\$347,542	\$192,989
Solid Waste	\$0	\$0	\$503,873	\$732,911	\$503,873
Ambulance	\$0	\$0	\$135,348	\$265,932	\$135,348
Misc.	\$7,362	\$1,570	\$0	\$0	\$7,362
	2013	2014	2013	2014	2013
Int Long-Term Debt	\$0	\$0	\$0	\$0	\$0
Unallocated Costs	\$18,805	\$41,558	\$0	\$0	\$18,805
Total Expense	\$14,374,574	\$15,760,137	\$832,210	\$1,346,385	\$15,206,785
Change in Net Position	\$6,855,072	\$4,418,341	\$244,090	(\$64,138)	\$7,099,162
Net Position, Begin	\$65,789,240	\$72,644,324	\$9,103,253	\$9,347,343	\$74,892,493
Net Position, Ending	\$72,644,312	\$77,062,665	\$9,347,343	\$9,283,205	\$81,991,654
					\$86,345,870

Net position for the governmental activities increased \$4,418,341. The increase is due largely to oil and gas revenues and an increase of grants received for various departments for many services.

#### **FUND FINANCIAL STATEMENTS:**

The fund financial statements provide detailed information about the major (most significant) funds. To be reported as a major fund, a fund must meet each of the two following criteria. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. The General Fund is always reported as a major fund.

***Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds).***

***The same element that met the 10 percent criterion in a. is at least 5 percent of the corresponding element total for all governmental***

#### **GOVERNMENTAL ACTIVITIES**

**General:** This fund includes the following accounts: Commissioner, Clerk of Court, Justice Court, Clerk and Recorder/Superintendent of Schools, State Examiner, Treasurer/Assessor, Data Processing, Tax Appeal, Elections, County Attorney,

Victim Witness, Building Maintenance, Outside Building Maintenance, Printing, County Coroner, Sheriff, Care of Prisoner, Dispatch, Fire Marshall, Disaster and Emergency Services, Board of Health, Mental Health, EMI, Drug and Alcohol Program, Rodent Control, Burial of Soldiers, Senior Citizens, Boy Scouts Building, Economic Development, Safety Program, General Solid Waste, Public Health, Sanitarian, Indigent Burials, County Agent, General Fair, Parks, Golf, Museum, Planner. This is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund Balance as of **June 30, 2014** was \$14,673,068, an increase of \$4,702,322 from prior fiscal year. The total expenditures were \$6,571,247 which is an increase of \$1,047,133 from the prior fiscal year. The total revenues were \$11,271,822, which is an increase of \$796,876 from the prior fiscal year. The amount of expenses and revenues will vary each year due to Cost of Living Adjustments; whether a new program is placed in the General Fund or taken from the General Fund, increased maintenance costs and increased cost for services, purchases, improvements to, or construction of Fixed Assets, grants, and adjustments to revenues. The following is a schedule showing revenues and expenditures and the variations in budget and actual balances:

**FALLON COUNTY, MONTANA**  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 General Fund  
 Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes/Special Assessments	\$3,201,358	\$3,201,358	\$3,227,826	\$24,468
License and Permits	\$600	\$600	\$277	\$323
Intergovernmental Revenue	\$4,687,901	\$4,687,901	\$6,279,400	\$1,591,500
Charges for Services	\$348,007	\$348,007	\$395,602	\$47,595
Fines and Forfeitures	\$10,950	\$10,950	\$18,290	\$7,340
Miscellaneous Revenues	\$122,610	\$122,610	\$986,801	\$864,191
Investment and Royalty Earnings	\$300,000	\$300,000	\$363,628	\$63,628
<b>Total Revenues</b>	<b>\$8,671,426</b>	<b>\$8,671,426</b>	<b>\$11,271,822</b>	<b>\$2,600,396</b>
<b>Expenditures:</b>				
Current:				
General Government	\$3,798,890	\$3,798,890	\$1,993,320	\$1,805,570
Public Safety	\$2,522,621	\$2,522,621	\$1,789,619	\$733,002
Public Works	\$3,305,000	\$3,305,000	\$83,847	\$3,221,153
Public Health	\$432,284	\$432,284	\$312,705	\$119,579
Social and Economic Services	\$983,354	\$983,354	\$525,868	\$457,486
Culture and Recreation	\$3,044,940	\$3,044,940	\$1,640,745	\$1,404,195
Housing & Community Development	\$297,903	\$297,903	\$223,573	\$74,330

Miscellaneous	\$12,000	\$12,000	\$1,570	\$10,430
Debt Service:				
Principle				
Interest	\$250	\$250	\$0	\$250
<b>Total Expenditures</b>	<b>\$14,397,242</b>	<b>\$14,397,242</b>	<b>\$6,571,247</b>	<b>\$7,825,995</b>
Excess of Revenues over Expenditures	(5,725,816)	(\$5,725,816)	\$4,700,575	\$10,426,391
Other Financing Sources(Uses):				
Sale of Assets	\$2,500	\$2,500	\$1,736	(\$765)
Transfers In/(Transfers Out)	\$555,000	\$555,000	\$0	(\$555,000)
<b>Total Other Financing Sources(Uses)</b>	<b>\$557,500</b>	<b>\$557,500</b>	<b>\$1,736</b>	<b>(\$555,765)</b>
Excess(Deficiency of Revenues & Other Sources Over Expenditures and Other Uses	(\$5,168,316)	(\$5,168,316)	\$4,702,311	\$9,870,627
Fund Balance – July 1, 2013			<u>\$9,970,758</u>	
Fund Balance – June 30, 2014			<u>\$14,673,068</u>	

#### **ROAD FUND:**

The total expenditures were \$3,418,472, an increase of \$1,245,339 from the prior fiscal year. The total revenues were \$3,416,569, which is an increase of \$1,453,719 from the prior fiscal year. Cost of Living Adjustments and major road repairs are the main factors in the increase of expenditures. The increase in revenues is attributable to a difference in the distribution of funding.

#### **BRIDGE FUND:**

The total expenditures were \$1,536,929, an increase of \$251,668 from the prior fiscal year. The total revenues were \$1,510,814, which is a decrease of \$87,704 from the prior fiscal year. The Cost of Living Adjustments, equipment purchases, and bridge construction are the main factors in the increase of expenditures. The decrease in revenues is attributable to a difference in the distribution of funding.

#### **CAPITAL PROJECTS GENERAL:**

The total expenditures were \$2,231,420, an increase of \$773 from the prior fiscal year. The total revenues were \$5,035 which is an increase of \$1,068 from the prior fiscal year. The increase in Revenues is attributable to a difference in the distribution of funding. The increase in expenditures is attributable to new equipment purchases and project expenses.

#### **BUSINESS TYPE ACTIVITIES**

#### **SOLID WASTE:**

This fund was set up to accommodate the Coral Creek Landfill. The Coral Creek Landfill is an intermediate landfill licensed with the State of Montana to accept up

to 25,000 tons of solid waste annually. This landfill is owned and operated by **Fallon County**. The site is located 7 miles Southeast of Baker and is approximately 90 miles from the Miles City Landfill site. The facility is operated under an Enterprise Fund and is self-supporting. All revenues generated by the landfill remain in the Enterprise Fund and do not become part of the County General Fund. Coral Creek Landfill is essentially operated as a non-profit enterprise. Out-of-County and Out-of-State users pay the same tipping fee as local residents. Since the beginning, it was realized that in order to provide economical disposal for the community, the facility would have to be a regional landfill. A regional landfill could only survive if all users were treated equally and fairly. The Coral Creek Landfill is an 80 acre site located in the Cedar Creek Anticline, of which 47.76 acres are used as the actual landfill. The revenues were \$768,382, which is a decrease of \$52,347 from last year. The expenditures were \$732,911 which is an increase of \$216,589. The decrease in revenues was because no oil/gas funds were distributed to this fund and the difference in the distribution of other funding. The increase in expenditures is explained by operation and repair cost increases.

#### **RETIREMENT COMPLEX:**

This fund was set up to accommodate the business-type activity of the Parkview Retirement Complex. The Parkview Retirement Complex is a two-story building. The second floor is accessible by way of elevator, equipped with an emergency call system. The building is located in the residential section of Baker, connected to the Fallon Medical Complex. The complex originally had 12 units and recently completed a new addition to the complex which added 12 more units for a total of 24 units; sixteen units contain two bedrooms and eight units contain one bedroom. The complex is open to anyone who wanted to live in the Baker area that is of retirement age. The complex is paid for and will not be a burden on the taxpayers, with the exception of maintenance and upkeep. The rent is a modest amount per month and includes all utilities (except electricity), caretaker services, janitorial services (outside the apartment); laundry rooms on each level, meeting rooms, social room and some meals are provided. The Complex overlooks two City parks, one equipped with picnic areas and playground equipment and a ball park. The County Commissioners have always maintained that they would like to provide affordable living for the elderly, but at the same time, want to make sure they meet the costs of services provided and maintenance of the building. There is continued discussion of raising the rent to better accommodate the cost of expenses incurred but also not competing with private enterprises. This fiscal year the revenues were \$142,125 an increase of \$8,286 from the prior fiscal year. The expenditures were \$347,542 an increase of \$154,553. The increase in Revenues is attributable to a difference in the distribution of funding. The increase in expenditures is explained by various maintenance costs.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. road, bridges, sidewalks, curbs, etc.) are reported in the applicable

governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of more than \$4,999.99 and an estimated useful life in excess of four (4) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. During fiscal year 2013, the County's Governmental Activities ending net capital asset balance was \$27,398,664, which is an increase from last fiscal year of \$2,907,546. The County's business-type activities ending net capital asset balance was \$5,902,644, which is an increase from last fiscal year of \$853,262. This balance reflects a total increase from last fiscal year of \$3,760,808.

Compensated Absences, as required by State law, the county allows for employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100 percent payable upon termination and unused sick leave benefits are 25 percent payable upon termination. Such amounts are reported as liabilities in the appropriate government wide statements for governmental and business-type activity. The total liability of accumulated vacation and sick leave for the governmental funds was \$386,176 and for the business-type funds was \$12,393. The County also has to maintain a closure/post-closure account for the landfill. These are monies which are set aside should the site be abandoned for any reason. That amount is \$357,644 for the fiscal year end. It is the hope of the County that this would cover the costs to reclaim this site back to its original state or better.

## **THE GOVERNMENT'S FUTURE**

The annual budget assures the efficient, effective, and economic uses of the County's resources, as well as establishing that projects and objectives are carried out according to prioritized planning. Through the budget, the County Commissioners set the direction of the County and allocates its resources.

The County is committed to maintaining a long-term capital improvement plan, with a primary function of protecting and replacing property, plant, infrastructure, and equipment. The continued upgrading of the County's roads and equipment has always been top priority; the ongoing updating of the County's hospital (Fallon Medical Complex) is a top priority, as is shown by the special voted health facility levy; and the County continues to repair its bridges. **Fallon County** continues to look at the future of alternate energy by researching possible Wind Farm location(s) and Geo-Thermal energy as a viable industry; a Port Authority is in place to promote, stimulate, develop, and advance the general welfare, commerce, economic development and prosperity of its jurisdiction and of the state and its citizens; continuing construction of the Baker Airport Runway project; assisting the Baker North Drainage project; **Fallon County** is also working on the completion of the Baker Lake Project, the Town of Plevna and City of Baker Water and Sewer Projects. **Fallon County's** economy has been strong to steady, largely due to the oil and gas

production. **Fallon County** is fortunate to have several major oil companies such as Denbury Resources, Continental Resources; major pipeline companies such as Bridger and High Plains Pipeline; also major gas companies for stability and growth, being, Williston Basin Interstate Pipeline and Fidelity, both subsidiaries of MDU Resources and our propane processing plant, OneOk who all maintain facilities within **Fallon County**. All of these companies stimulate the economy, growth, and allow for some of the revenues to be distributed back to the County to offset the costs of services and recreation provided to its residents. **Fallon County** continues to strive to stimulate economic growth and development to maintain the stability needed to survive in Southeastern Montana.

### **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to the County's accountability for the money it receives. If you have questions concerning this report or need additional information, contact the **Clerk and Recorder's or the County Commissioner's** offices at the **Fallon County Courthouse**. You may also contact us by mailing any and all comments or questions to PO Box 846, Baker, Montana 59313. The County has an e-mail address of [falloncc@midrivers.com](mailto:falloncc@midrivers.com) and the phone number for the County Commissioner's office is (406)778-7107 and for the Clerk and Recorder's office is (406)778-8182.

**FALLON COUNTY, MONTANA  
ORGANIZATION**

Fiscal Year  
Ended June 30, 2014

**BOARD OF COUNTY COMMISSIONERS**

Deb Ranum	Chair
William Randash	Commissioner
Steve Baldwin	Commissioner

**COUNTY OFFICIALS**

Albert R. Batterman	Attorney
Brenda Wood	Clerk and Recorder
Jeraldine Newell	Clerk of Court
Nicole Benefiel	Justice of the Peace
Darcy Pankratz	Public Administrator
Tim Barkley	Sheriff/Coroner
Barbara Ketterling	Treasurer/Assessor



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## James J. Wosepka, PC – Certified Public Accountant

Licensed in North Dakota and Montana

### INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners  
Fallon County  
Baker, Montana 59313

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fallon County, Baker, Montana, 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**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fallon County, Baker, Montana, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-x and 32-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fallon County, Baker, Montana's basic financial statements. The supplementary information on pages 37-39 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 presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary information on pages 37-39 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 January 16, 2015, on our consideration of Fallon County, Baker, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fallon County, Baker, Montana's internal control over financial reporting and compliance.

January 16, 2015  
Baker, Montana

James J. Wosepka, PC

By *James J. Wosepka* CPA

**FALLON COUNTY, MONTANA**  
**STATEMENT OF NET POSITION**  
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 49,749,290	\$ 3,344,616	\$ 53,093,906
Petty Cash	3,300	75	3,375
Restricted Assets:			
Cash and cash equivalents	-	358,201	358,201
Taxes/Assessments Receivable	38,177	25	38,202
Accounts/other receivables - (net of allowance for uncollectibles)	-	30,948	30,948
Inventories	277,536	-	277,536
Capital assets not being depreciated			
Land	264,925	102,500	367,425
Construction in progress	12,423,003	608,607	13,031,610
Capital assets being depreciated (net of accumulated depreciation)	14,695,611	5,211,637	19,907,248
<b>Total Assets</b>	<b>77,451,842</b>	<b>9,656,609</b>	<b>87,108,451</b>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	3,000	2,678	5,678
Noncurrent liabilities:			
Due within one year	50,000	20,000	70,000
Due in more than one year	336,176	350,726	686,902
<b>Total Liabilities</b>	<b>389,176</b>	<b>373,404</b>	<b>762,580</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	27,383,539	5,922,744	33,306,283
Restricted for:			
Public Safety	1,393,952	-	1,393,952
Public Works	1,066,371	-	1,066,371
Public Health	3,401	-	3,401
Culture/Recreation	6,533	-	6,533
Social & Economic	7,901	-	7,901
Closure/Post Closure Costs	-	358,201	358,201
Unrestricted	47,200,968	3,002,260	50,203,228
<b>Total Net Position</b>	<b>\$ 77,062,665</b>	<b>\$ 9,283,205</b>	<b>\$ 86,345,870</b>

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for		Capital Grants and Contributions	Primary Government		
		Services, Fines, Forfeitures, etc.	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,251,460	\$ 317,094	\$ -	\$ -	\$ (1,934,366)	\$ -	\$ (1,934,366)
Public safety	1,575,124	1,130	1,363,794	-	(210,200)	-	(210,200)
Public works	5,288,890	142,960	572,085	512,923	(4,060,922)	-	(4,060,922)
Public health	3,695,777	52,301	47,859	-	(3,595,617)	-	(3,595,617)
Social and economic services	623,006	46,581	45,243	-	(531,182)	-	(531,182)
Culture and recreation	2,022,361	119,431	3,139	-	(1,899,791)	-	(1,899,791)
Housing/Community Development	260,391	-	-	-	(260,391)	-	(260,391)
Unallocated costs	41,558	-	-	-	(41,558)	-	(41,558)
Miscellaneous	1,570	1,039	6,646	-	6,115	-	6,115
<b>Total governmental activities</b>	<b>15,760,137</b>	<b>680,536</b>	<b>2,038,766</b>	<b>512,923</b>	<b>(12,527,912)</b>	<b>-</b>	<b>(12,527,912)</b>
<b>Business-type activities:</b>							
Retirement Complex	347,542	142,125	-	-	-	(205,417)	(205,417)
Solid Waste/Landfill	732,911	768,381	-	-	-	35,470	35,470
Ambulance	265,932	159,205	-	-	-	(106,727)	(106,727)
<b>Total business-type activities</b>	<b>1,346,385</b>	<b>1,069,711</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(276,674)</b>	<b>(276,674)</b>
<b>Total primary government</b>	<b>\$ 17,106,522</b>	<b>\$ 1,750,247</b>	<b>\$ 2,038,766</b>	<b>\$ 512,923</b>	<b>(12,527,912)</b>	<b>(276,674)</b>	<b>(12,804,586)</b>
<b>General revenues:</b>							
Property taxes					5,322,051	-	5,322,051
Licenses and permits					277	-	277
Unrestricted Federal/State shared revenues					10,189,497	207,341	10,396,838
Unrestricted investment earnings					380,946	4,660	385,606
Miscellaneous					1,030,775	-	1,030,775
Gain on sale of capital assets					22,707	535	23,242
<b>Total general revenues and transfers</b>					<b>16,946,253</b>	<b>212,536</b>	<b>17,158,789</b>
Change in net position					4,418,341	(64,138)	4,354,203
<b>Total net position - July 1, 2013 as previously reported</b>					<b>72,644,312</b>	<b>9,347,343</b>	<b>81,991,655</b>
<b>Prior period adjustments</b>					<b>12</b>	<b>-</b>	<b>12</b>
<b>Total net position - July 1, 2013 as restated</b>					<b>72,644,324</b>	<b>9,347,343</b>	<b>81,991,667</b>
<b>Total net position - July 1, 2014</b>					<b>\$ 77,062,665</b>	<b>\$ 9,283,205</b>	<b>\$ 86,345,870</b>

The notes to the financial statements are an integral part of this statement.  
6

**FALLON COUNTY, MONTANA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

Description	Major Funds					Total Governmental Funds
	General	Road	Bridge	Capital Projects	Other Governmental Funds	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 23,625,085	\$ 6,565,264	\$ 5,295,974	\$ 4,279,739	\$ 9,021,937	\$ 48,787,999
Petty cash	3,300	-	-	-	-	3,300
Tax/assessment receivable	20,398	5,504	2,122	-	9,792	37,816
Inventories	-	168,985	62,335	-	46,216	277,536
<b>Total Assets</b>	<b>23,648,783</b>	<b>6,739,753</b>	<b>5,360,431</b>	<b>4,279,739</b>	<b>9,077,945</b>	<b>49,106,651</b>
<b>LIABILITIES</b>						
Deposits payable	-	-	-	-	3,000	3,000
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000</b>	<b>3,000</b>
<b>DEFERRED INFLOWS OF RESOURCES-</b>						
Unavliable revenue-property taxes	20,398	5,504	2,122	-	9,792	37,816
<b>FUND BALANCES</b>						
Non-spendable	-	168,985	62,335	-	46,216	277,536
Restricted	-	-	-	-	2,180,240	2,180,240
Committed	-	-	-	-	1,545	1,545
Assigned	8,955,317	6,565,264	5,295,974	4,279,739	6,837,152	31,933,446
Unassigned	14,673,068	-	-	-	-	14,673,068
<b>Total fund balances</b>	<b>23,628,385</b>	<b>6,734,249</b>	<b>5,358,309</b>	<b>4,279,739</b>	<b>9,065,153</b>	<b>49,065,835</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 23,648,783</b>	<b>\$ 6,739,753</b>	<b>\$ 5,360,431</b>	<b>\$ 4,279,739</b>	<b>\$ 9,077,945</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.  
 Certain property tax collections are not available to pay current-period expenditures and therefore are reported as deferred inflows of resources in the funds.  
 Internal service funds are used by management to charge the costs of providing services within the government. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets.

Net amount allocated to business-type/external activities  
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

	27,383,538
	37,816
	961,652
	(386,175)
	<u>\$ 77,062,665</u>

**Net position of governmental activities**

**FALLON COUNTY, MONTANA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2014**

Description	Business-type Activities				Governmental
	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals	Internal Service
	Solid Waste	Retirement Complex			
<b>OPERATING REVENUES</b>					
Charges for services	\$ 753,381	\$ 142,125	\$ 148,805	\$ 1,044,311	\$ 1,183,981
Miscellaneous revenues	15,000	-	10,400	25,400	-
Special assessments	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>768,381</b>	<b>142,125</b>	<b>159,205</b>	<b>1,069,711</b>	<b>1,183,981</b>
<b>OPERATING EXPENSES</b>					
Personal services	245,526	-	70,300	315,826	-
Supplies	131,250	7,123	87,484	225,857	-
Purchased services	133,970	232,386	18,606	384,962	2,058,638
Fixed charges	55,362	16,166	9,963	81,491	-
Loss/Bad debt expense	2,997	-	31,761	34,758	-
Depreciation	163,805	91,867	47,819	303,491	-
<b>Total Operating Expenses</b>	<b>732,910</b>	<b>347,542</b>	<b>265,933</b>	<b>1,346,385</b>	<b>2,058,638</b>
Operating Income (Loss)	35,471	(205,417)	(106,728)	(276,674)	(874,657)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes/assessment revenue	-	-	-	-	6
Gain/Loss on sale of capital assets	-	-	535	535	-
Intergovernmental revenue	-	-	207,341	207,341	-
Interest revenue	4,120	426	114	4,660	848
<b>Total Non-Operating Revenues (Expenses)</b>	<b>4,120</b>	<b>426</b>	<b>207,990</b>	<b>212,536</b>	<b>854</b>
Income (Loss) before contributions and transfers	39,591	(204,991)	101,262	(64,138)	(873,803)
Transfers in (out)	-	-	-	-	-
Change in net position	39,591	(204,991)	101,262	(64,138)	(873,803)
Total net position - July 1, 2013 - as previously stated	1,910,224	4,745,450	2,691,669	9,347,343	1,835,455
Reclassifications	1,781,684	-	(1,781,684)	-	-
Total net position - July 1, 2013 - as reclassified	3,691,908	4,745,450	909,985	9,347,343	1,835,455
Total net position - June 30, 2014	\$ 3,731,499	\$ 4,540,459	\$ 1,011,247	\$ 9,283,205	\$ 961,652

The notes to the financial statements are an integral part of this statement.

**12. Closure and Post-closure Care Costs – cont.**

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined, due to changes in technology or applicable laws or regulations for example, these costs may need to be covered by charges to future landfill users.

As of June 30, 2014, the estimated closure costs were \$541,122 and the estimated post-closure costs were \$224,069 for a total of \$765,191. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

At June 30, 2014, the County had \$357,644 restricted for this purpose. In accordance with the Montana Department of Environmental Quality, \$357,644 has been set aside in a trust to help fund the closure and post-closure costs. The County currently contributes \$36,002 to the trust.

**13. Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Coverage

As of July 1, 2009, the County changed carriers for Worker's Compensation coverage. The County now pays a premium for their coverage based on the wages paid and rate per classification.

Previous to July 1, 2009, the County was covered by the Montana Association of Counties Worker's Compensation Trust. The County has a reserve for the claims of \$13,600, but may have additional claims. No liability has been accrued for future liabilities.

**14. Restatements/Reclassifications**

June 30, 2013 fund balances have been restated to reflect the following adjustments:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	\$ 12	To adjust
Solid Waste Fund	1,781,684	To reclassify to include the Solid Waste Capital Projects Fund

**15. Subsequent Events**

The County has evaluated subsequent events through the date of this report. The County has committed to contracts in the amount of \$4,009,137.

control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fallon County, Baker, Montana's financial statements are free from 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*. We have communicated additional matters to the County in a separate schedule on page 48.

### **Fallon County, Baker, Montana's Response to Findings**

Fallon County, Baker, Montana's response to the findings identified in our audit is being sent to the State of Montana under a separate cover. Fallon County, Baker, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 16, 2015  
Baker, Montana

James J. Wosepka, PC

By  CPA

**FALLON COUNTY, MONTANA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2014**

Description	Major Funds					Total Governmental Funds
	General	Road	Bridge	Capital Projects	Other Governmental Funds	
<b>REVENUES</b>						
Taxes/assessments	\$ 3,227,826	\$ 962,345	\$ 3,705	\$ -	\$ 1,144,018	\$ 5,337,894
Licenses and permits	277	-	-	-	-	277
Intergovernmental revenues	6,500,533	2,434,481	1,503,358	-	2,302,815	12,741,187
Charges for services	395,602	4,800	-	-	261,325	661,727
Fines and forfeitures	18,290	-	-	-	-	18,290
Miscellaneous	986,800	10,169	366	2,029	31,929	1,031,283
Investment and royalty earnings	363,627	4,773	3,365	3,005	5,306	380,096
<b>Total Revenues</b>	<b>11,492,955</b>	<b>3,416,568</b>	<b>1,510,814</b>	<b>5,034</b>	<b>3,745,393</b>	<b>20,170,764</b>
<b>EXPENDITURES</b>						
Current:						
General government	1,942,195	-	-	-	573	1,942,768
Public safety	1,014,877	-	-	-	308,680	1,323,557
Public works	63,847	3,101,800	562,993	-	576,773	4,345,413
Public health	312,705	-	-	-	1,101,056	1,413,761
Social and economic services	525,868	-	-	-	-	525,868
Culture and recreation	814,887	-	-	-	857,444	1,672,331
Housing and community development	223,573	-	-	-	-	223,573
Capital outlay	1,651,725	337,347	853,936	2,231,420	1,128,197	6,302,625
Miscellaneous	1,570	-	-	-	-	1,570
<b>Total Expenditures</b>	<b>6,571,247</b>	<b>3,439,147</b>	<b>1,536,929</b>	<b>2,231,420</b>	<b>3,972,723</b>	<b>17,751,466</b>
<b>Excess of revenues (under) expenditures</b>	<b>4,921,708</b>	<b>(22,579)</b>	<b>(26,115)</b>	<b>(2,226,386)</b>	<b>(227,330)</b>	<b>2,419,298</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Sale of capital assets	1,735	34,511	-	-	1,586	37,832
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>1,735</b>	<b>34,511</b>	<b>-</b>	<b>-</b>	<b>1,586</b>	<b>37,832</b>
<b>Net change in fund balances</b>	<b>4,923,443</b>	<b>11,932</b>	<b>(26,115)</b>	<b>(2,226,386)</b>	<b>(225,744)</b>	<b>2,457,130</b>
<b>Fund balances - July 1, 2013-as previously reported</b>	<b>18,704,930</b>	<b>6,722,317</b>	<b>5,384,424</b>	<b>6,506,125</b>	<b>9,290,897</b>	<b>46,608,693</b>
<b>Prior period reclassifications</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Prior period restatements</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>
<b>Fund balances - July 1, 2013-as restated</b>	<b>18,704,942</b>	<b>6,722,317</b>	<b>5,384,424</b>	<b>6,506,125</b>	<b>9,290,897</b>	<b>46,608,705</b>
<b>Fund balances - June 30, 2014</b>	<b>\$ 23,628,385</b>	<b>\$ 6,734,249</b>	<b>\$ 5,358,309</b>	<b>\$ 4,279,739</b>	<b>\$ 9,065,153</b>	<b>\$ 49,065,835</b>

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2014**

<b>Net change in fund balances - total governmental funds (page 8)</b>	<b>\$ 2,457,132</b>
Amounts reported for governmental activities in the statement of activities (page 6) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	6,302,626
Donated capital assets	<u>(2,254,573)</u>
Depreciation expense	<u>(1,140,507)</u>
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
Gain on disposal of capital assets	22,707
Proceeds from the sale of capital assets	<u>(37,832)</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	<u>(15,849)</u>
Internal service funds are used by management to charge the costs of certain activities, such as insurance and data processing, to individual funds. The net revenue of the internal service funds is reported with the governmental activities of the government-wide statement of activities net of the amounts allocated to business-type activities and depreciation expense	
Change in net position	<u>(873,804)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Accrued compensated absences	<u>(41,559)</u>
<b>Change in Net Position in Governmental Activities</b>	<b>\$ 4,418,341</b>

**FALLON COUNTY, MONTANA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014**

Description	Business-type Activities				Governmental
	Major Enterprise Funds			Totals	Internal Service
	Solid Waste	Retirement Complex	Nonmajor Enterprise Funds		
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,772,110	\$ 808,205	\$ 764,301	\$ 3,344,616	\$ 961,291
Petty cash	75	-	-	75	-
Tax/assessment receivable	-	-	25	25	361
Accounts/other receivables	-	-	30,948	30,948	-
<b>Total Current Assets</b>	<b>1,772,185</b>	<b>808,205</b>	<b>795,274</b>	<b>3,375,664</b>	<b>961,652</b>
<b>Noncurrent Assets</b>					
<b>Restricted Assets:</b>					
Cash and cash equivalents	358,201	-	-	358,201	-
<b>Capital assets:</b>					
Land	64,000	38,500	-	102,500	-
Construction in Progress	608,607	-	-	608,607	-
Buildings	146,406	4,518,789	73,909	4,739,104	-
Improvements other than buildings	5,400	40,315	-	45,715	-
Machinery and equipment	1,967,087	-	471,666	2,438,753	-
Less: accumulated depreciation	(820,350)	(862,672)	(328,913)	(2,011,935)	-
Capital assets - net of accumulated depreciation	1,971,150	3,734,932	216,662	5,922,744	-
<b>Total Noncurrent Assets</b>	<b>2,329,351</b>	<b>3,734,932</b>	<b>216,662</b>	<b>6,280,945</b>	<b>-</b>
<b>Total Assets</b>	<b>4,101,536</b>	<b>4,543,137</b>	<b>1,011,936</b>	<b>9,656,609</b>	<b>961,652</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Deposits payable	-	2,678	-	2,678	-
<b>Total Current Liabilities</b>	<b>-</b>	<b>2,678</b>	<b>-</b>	<b>2,678</b>	<b>-</b>
<b>Noncurrent Liabilities</b>					
Closure/postclosure care costs	357,644	-	-	357,644	-
Compensated absences	12,394	-	688	13,082	-
<b>Total Noncurrent Liabilities</b>	<b>370,038</b>	<b>-</b>	<b>688</b>	<b>370,726</b>	<b>-</b>
<b>Total Liabilities</b>	<b>370,038</b>	<b>2,678</b>	<b>688</b>	<b>373,404</b>	<b>-</b>
<b>NET POSITION</b>					
Net investment in capital assets	1,971,150	3,734,932	216,662	5,922,744	-
<b>Restricted for:</b>					
Closure/Post Closure Costs	358,201	-	-	358,201	-
Deposits	-	2,678	-	2,678	-
Unrestricted	1,402,148	802,849	794,585	2,999,582	961,652
<b>Total Net Position</b>	<b>\$ 3,731,499</b>	<b>\$ 4,540,459</b>	<b>\$ 1,011,247</b>	<b>\$ 9,283,205</b>	<b>\$ 961,652</b>

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2014**

Description	Business-type Activities			Totals	Governmental
	Major Enterprise Funds		Nonmajor Enterprise Funds		Internal Service
	Solid Waste	Retirement Complex			
<b>OPERATING REVENUES</b>					
Charges for services	\$ 753,381	\$ 142,125	\$ 148,805	\$ 1,044,311	\$ 1,183,981
Miscellaneous revenues	15,000	-	10,400	25,400	-
Special assessments	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>768,381</b>	<b>142,125</b>	<b>159,205</b>	<b>1,069,711</b>	<b>1,183,981</b>
<b>OPERATING EXPENSES</b>					
Personal services	245,526	-	70,300	315,826	-
Supplies	131,250	7,123	87,484	225,857	-
Purchased services	133,970	232,386	18,606	384,962	2,058,638
Fixed charges	55,362	16,166	9,963	81,491	-
Loss/Bad debt expense	2,997	-	31,761	34,758	-
Depreciation	163,805	91,867	47,819	303,491	-
<b>Total Operating Expenses</b>	<b>732,910</b>	<b>347,542</b>	<b>265,933</b>	<b>1,346,385</b>	<b>2,058,638</b>
Operating Income (Loss)	35,471	(205,417)	(106,728)	(276,674)	(874,657)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes/assessment revenue	-	-	-	-	6
Gain/Loss on sale of capital assets	-	-	535	535	-
Intergovernmental revenue	-	-	207,341	207,341	-
Interest revenue	4,120	426	114	4,660	848
<b>Total Non-Operating Revenues (Expenses)</b>	<b>4,120</b>	<b>426</b>	<b>207,990</b>	<b>212,536</b>	<b>854</b>
Income (Loss) before contributions and transfers	39,591	(204,991)	101,262	(64,138)	(873,803)
Transfers in (out)	-	-	-	-	-
Change in net position	39,591	(204,991)	101,262	(64,138)	(873,803)
Total net position - July 1, 2013	3,691,908	4,745,450	909,985	9,347,343	1,835,455
Total net position - June 30, 2014	\$ 3,731,499	\$ 4,540,459	\$ 1,011,247	\$ 9,283,205	\$ 961,652

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2014**

Description	Business-type Activities				Governmental
	Major Enterprise Funds		Nonmajor Enterprise Funds	Totals	Internal Service
	Solid Waste	Retirement Complex			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 768,381	\$ 141,334	\$ 153,654	\$ 1,063,369	\$ 1,184,005
Cash paid to suppliers	(288,776)	(255,675)	(147,125)	(691,576)	(2,058,638)
Cash paid to employees	(245,525)	-	(70,300)	(315,826)	-
Net cash provided (used) by operating activities	234,079	(114,341)	(63,771)	55,967	(874,633)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from (to) other funds	-	-	-	-	-
Subsidies from taxes and other governments	-	-	207,341	207,341	5
Net cash provided (used) by noncapital financing activities	-	-	207,341	207,341	5
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchases/acquisition/construction of capital assets	(1,126,307)	-	(50,545)	(1,176,852)	-
Proceeds from sales of capital assets	-	-	535	535	-
Net cash provided (used) by capital and related financing activities	(1,126,307)	-	(50,010)	(1,176,317)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest earnings	4,120	426	113	4,659	848
Net cash provided (used) by investing activities	4,120	426	113	4,659	848
Net increase (decrease) in cash and cash equivalents	(888,108)	(113,915)	93,673	(908,350)	(873,780)
Cash and cash equivalents - July 1, 2013	3,018,494	922,120	670,628	4,611,242	1,835,070
Cash and cash equivalents - June 30, 2014	\$ 2,130,386	\$ 808,205	\$ 764,301	\$ 3,702,892	\$ 961,290
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Operating income	\$ 35,471	\$ (205,417)	\$ (106,727)	\$ (276,673)	\$ (874,657)
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	163,805	91,866	47,819	303,490	-
(Increase) Decrease in accounts receivable	-	-	(5,553)	(5,553)	5
(Increase) Decrease in intergovernmental receivables	-	-	2	2	19
Increase (decrease) in landfill liability	33,272	-	-	33,272	-
Increase (decrease) in customer deposits	-	(790)	-	(790)	-
Increase (decrease) in compensated absences pay.	1,531	-	688	2,219	-
Total adjustments	198,608	91,076	42,956	332,640	24
Net cash provided (used) by operating activities	\$ 234,079	\$ (114,341)	\$ (63,771)	\$ 55,967	\$ (874,633)

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

Description	Trust Funds	Agency Funds
	Investment Trust Funds	Agency Composite
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,532,644	\$ 35,207,958
Tax/assessment receivable	-	38,158
<b>Total Assets</b>	<b>10,532,644</b>	<b>35,246,116</b>
<b>LIABILITIES</b>		
Warrants payable	-	2,613,658
Due to other governments	-	32,632,458
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 35,246,116</b>
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	<u><u>\$ 10,532,644</u></u>	

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2014**

Description	Trust Funds Investment Trust Funds
<b>ADDITIONS:</b>	
Additional contributions	\$ 14,838,436
<b>Total Additions</b>	14,838,436
 <b>DEDUCTIONS:</b>	
Distribution of investments	9,400,792
<b>Total Deductions</b>	9,400,792
Change in net position	5,437,644
Total net position - July 1, 2013	5,095,000
Total net position - June 30, 2014	\$ 10,532,644

The notes to the financial statements are an integral part of this statement.

**FALLON COUNTY, MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. Summary of Significant Accounting Policies**

The financial statements of Fallon County, Montana (County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The County's significant accounting policies are described below.

Reporting Entity

The County is governed by an elected three-member board of County Commissioners and is considered a legally independent separate governmental organization able to sue or be sued, buy, sell, or lease property, approve or modify their budget, set its own taxes or rates, and issue bonded debt.

The primary government (County) is financially accountable for a component unit if it appoints a voting majority of the unit's governing body and if it has the ability to impose its will on the component unit or if there is an affirmative potential financial benefit or burden. The County has no component units.

School districts and other independent taxing units are reflected only in the combined balance sheet as agency funds since the County is responsible, by law, for the collection of taxes and/or the maintenance of cash funds for these entities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund 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 statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) 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 instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

**1. Summary of Significant Accounting Policies – cont.**

Non-major funds are reported in a single column in the financial section of the basic financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government 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.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government. Taxes and assessments receivable remaining uncollected at year end are offset by unearned revenue since they are not available to pay liabilities of the current period.

The government reports the following major governmental funds:

General Fund - This is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects General – The Capital Projects General Fund transfers from other funds or other sources and uses those funds to acquire and/or construct major long lived capital facilities other than those financed by the Enterprise Fund Revenue.

Road Fund - The Road Fund accounts for the financial activities related to the road operations.

1. **Summary of Significant Accounting Policies – cont.**  
**Measurement Focus, Basis of Accounting, and Financial Statement Presentation – cont.**

Bridge Fund – The Bridge Fund accounts for the financial activities related to the bridge operations.

The government reports the following major proprietary funds:

Solid Waste - Garbage Enterprise Fund - This fund is used to account for the operating and non-operating revenues and expenses of the public garbage utility system. The fund is maintained on the full accrual basis of accounting.

Retirement Complex Enterprise Fund – This fund is used to account for the operating and non-operating revenues and expenses of the Retirement Complex. The fund is maintained on the full accrual basis of accounting.

Additionally, the government reports the following fund types:

Internal Service Funds - These funds account for services provided by the government to its various departments or agencies or to other governments on a cost recovery basis.

Fiduciary Funds – These funds account for assets held by the County as an agent for other entities or organizations. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. They are excluded from the government-wide statements because they do not report any net position.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the government's internal service funds are charges to customers for services provided. Operating expenses for enterprise funds and internal service funds include the cost of providing such services and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**1. Summary of Significant Accounting Policies – cont.**

Cash and Temporary Cash Investments

The County has not adopted the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, which requires 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 occurs. The County purchases investments for the return (interest) and holds the investments to maturity. There is an immaterial difference between cost and fair market value.

Cash resources, to the extent available, of the individual funds are combined to form a cash pool which is managed by the County Treasurer. The cash pool is not registered with the Securities and Exchange Commission as an investment company and is not subject to regulatory oversight. Investments of the pooled cash, which are authorized by state law, consist primarily of repurchase agreements, the State of Montana's Short Term Investment Pool (STIP), securities of the U.S. government or its agencies, and savings deposits, and are carried at fair value. The fair value of investments is determined annually and is based on current market prices. The method used to determine the values of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of withdrawal. Bank deposits include repurchase agreements and savings deposits in County banks. Interest income earned as a result of pooling and changes in fair value of investments are distributed to the applicable cash balance participation of each fund.

The County has not provided, nor obtained, any legally binding guarantees during the fiscal period ended June 30, 2014 to support the value of shares in the pool.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of four (4) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

1. **Summary of Significant Accounting Policies – cont.**  
**Capital Assets – cont.**

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	10 to 50
Infrastructure	10 to 40
Vehicles	4 to 6
Equipment other than vehicles	5 to 20
Office equipment	5
Computer	5

**Taxes and Assessments**

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

**Enterprise Accounts Receivable**

Accounts receivable are reported as net of receivables placed into collection.

**Inventories**

Inventories of materials and supplies on hand are maintained and are stated at cost, first in, first-out. Reported inventories are equally offset by a fund balance designation which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**Fund Equity**

**FUND FINANCIAL STATEMENTS**

Governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**GOVERNMENT-WIDE STATEMENTS**

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Amount of capital assets, net of accumulated depreciation less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Amount of net position that is subject to restrictions that are imposed by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

1. **Summary of Significant Accounting Policies – cont.**

**Fund Equity – cont.**

Unrestricted net position – Net position that is neither classified as restricted, nor as net investment in capital assets.

Compensated Absences

As required by state law, the County allows for employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100% payable upon termination and 1/4 of unused sick leave benefits are payable upon termination. Such amounts are reported as liabilities in the appropriate governmental or business-type activity in the government-wide statements. Expenditures for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting and expenses for vacation and sick leave benefits are recorded when accrued in the proprietary funds on the full accrual basis of accounting.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond issue using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

Net position represents the difference between assets and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. All other net position is reported as unrestricted. The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**1. Summary of Significant Accounting Policies – cont.**

Fund Balances – Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the County Commission. The County Commission is the highest level of decision making authority for the County. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the County Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Under the County adopted policy, only the County Commission may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the County Commission has provided otherwise in its Commitment or assignment actions.

**1. Summary of Significant Accounting Policies - cont.**

**Fund Balances - Governmental Funds - cont.**

	General	Road	Bridge	Cap Proj Gen	Other Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>						
<b>Nonspendable</b>						
Inventory	\$ -	\$ 168,985	\$ 62,335	\$ -	\$ 46,216	\$ 277,536
<b>Restricted for:</b>						
Public Safety	-	-	-	-	1,378,622	1,378,622
Public Works	-	-	-	-	787,184	787,184
Culture Recreation	-	-	-	-	6,533	6,533
Social & Economic	-	-	-	-	7,901	7,901
<b>Committed to:</b>						
Public Health	-	-	-	-	1,545	1,545
<b>Assigned for:</b>						
General Government	8,955,317	-	-	-	2,934,494	11,889,811
Public Works	-	6,565,264	5,295,974	4,279,739	2,309,718	18,450,695
Public Safety	-	-	-	-	15,307	15,307
Public Health	-	-	-	-	572,803	572,803
Culture Recreation	-	-	-	-	1,004,830	1,004,830
<b>Unassigned:</b>	14,673,068	-	-	-	-	14,673,068
<b>Total Fund Balance:</b>	<b>\$ 23,628,385</b>	<b>\$ 6,734,249</b>	<b>\$ 5,358,309</b>	<b>\$ 4,279,739</b>	<b>\$ 9,065,153</b>	<b>\$ 49,065,835</b>

Reported in the General Fund is \$8,955,317 of assigned funds from the Oil/Natural Gas Fund.

1. **Summary of Significant Accounting Policies - continued**

**Cash and Cash Equivalents**

The County considers, for purposes of the statement of cash flows, all investments of the proprietary fund types to be highly liquid investments and, therefore, cash equivalents.

**Interfund Transactions**

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County does not have any of this type of item.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

2. **Budget Variances**

Significant favorable budget to actual variances occurred in the General Fund and Special Revenue Funds. The variances were a result of receipts that were not possible to estimate at the time of the budget.

All other variances were a result of over/under estimating revenues and/or expenditures.

3. **Property Taxes**

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the County. Taxable values are established by the State Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by state statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout

3. **Property Taxes – cont.**

the year with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

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.

The County is permitted by state statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the County for the year ended June 30, 2014 were within legal limits. The tax levies were based upon a taxable valuation of \$33,252,967.

Current tax collections for the year ended June 30, 2014 were approximately 97% of the amount levied.

4. **Cash and Investments**

The County maintains a cash and investment pool for all funds under the control of the County Treasurer. In addition, investments are separately held for several of the funds.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits, investments in the State Short-Term Investment Pool (S.T.I.P.), direct obligations of the United States, repurchase agreements, and registered warrants.

As of June 30, 2014, the County's reporting entity had Federal Agency Notes of \$14,964,258 reported as investments. The fair market value of those investments was \$14,949,217. The securities current yield ranged from 0.62% to 4.86% and the months to maturity ranged from 1 to 36 months.

Credit risk is the risk that an issuer, or other counterparty to an investment, will not fulfill its obligations. The County's investing activities are managed under the custody of the County Treasurer. Investing is performed in accordance with state statutes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The County only invests in short term investments and holds them to maturity. The County also has \$6,095,000 invested with the State Short-Term Investment Pool (S.T.I.P.). This has a current yield of .9939% and is not subject to credit risk.

Since the County's investments in United States Government securities are all short-term and held to maturity, the difference between cost and fair market value is immaterial.

4. **Cash and Investments – cont.**

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

<u>Cash</u>			
Cash on Hand	\$	362,973	
Petty Cash		3,300	
Cash in Banks			
Savings Deposits		4,300,536	
Repurchase Agreements		<u>67,674,172</u>	
	\$		72,340,981
<u>Investments</u>			
S.T.I.P.		6,095,000	
U.S. Government Securities		<u>20,760,103</u>	<u>26,855,103</u>
Total	\$		<u><u>99,196,084</u></u>

Deposits - At year end, the carrying amount of the County's deposits was \$67,674,172 and the bank balance was \$67,620,582. These deposits include demand and savings deposits. Of the bank balance, \$500,000 was covered by Federal Depository Insurance, \$67,120,582 was covered by pledged securities, and \$0 was uninsured and uncollateralized.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the County's deposits may not be returned or the County will not be able to recover collateral securities in the possession of an outside party.

Montana statutes require that the County obtain securities for the uninsured portion of the deposits as follows: 1) securities equal to 50% of such deposits, if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2) securities equal to 100% of the uninsured deposits, if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. The state statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for County deposits at June 30, 2014 exceeded the amount required by state statutes.

The County maintains cash restricted for landfill closure and post closure costs. At June 30, 2014, this amounted to \$358,201, of which all is maintained in a trust account. This amount is included with the numbers above.

Investments - As noted above, statutes authorize the County to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investments Pool (STIP). These investments are in addition to savings deposits which are included in deposits above.

5. **Long-term Debt**

The following is a summary of long-term debt transactions of the County for the fiscal year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Compensated Absences Payable	\$ 355,480	\$ 43,778	\$ -	\$ 399,258

5. **Long-term Debt – cont.**

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

**Compensated Absences Payable**

Compensated absences payable, which represents vacation and sick leave earned by employees, which is payable upon termination, is as follows:

General Government Long-term Debt	\$ 386,176
Enterprise Funds	<u>13,082</u>
	<u>\$ 399,258</u>

**Solid Waste Landfill Facility Closing Costs**

The estimated long-term debt costs for the closing and post-closing costs for the landfill is \$765,191. The long-term liability is \$357,644, 46.74% of the estimated cost, since this is the estimated portion of the landfill used to date.

6. **Services Provided To Other Governments**

Fallon 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 periodically remitted to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

7. **Joint Ventures**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

**City-County Airport**

The City-County Airport is owned and operated jointly by Fallon County and the City of Baker. The operation of the City-County Airport is accounted for by Fallon County within the Special Revenue Fund. The City-County Airport is administered by a five member board comprised of two members from the City, two members from the County governing board, and one member appointed at large by both the City and the County. Airport Board members are appointed for three years. The original budget is approved by the controlling governments, with the City budgeting for its share within its budget, and the County including the entire operation within its budget. Airport revenues may be derived from tax levies by the City of Baker and Fallon County, user fees, Federal and State grants or loans, and investment income. The fixed assets are accounted for by the County. The County's contribution to the City-County Airport for the fiscal year ended June 30, 2014 was \$950,768. The City's contribution was \$0.

**City-County Administration Building**

The City of Baker and Fallon County both own and utilize the City-County Administration Building. The building is used by the City for its offices and Police Department. The building is maintained by the County. The City makes a

7. **Joint Ventures – cont.**

reimbursement payment to the County for maintenance of \$16,000 per year. The City reimburses the County for 50% of the Sheriff's radio and tower, and \$50 per day, per prisoner, for prisoner care. The fixed assets are accounted for by both the County and City.

8. **Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014.

	Beginning <u>Balance</u>	Adjustments/ <u>Increases</u>	Adjustments/ <u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 264,925	\$ -	\$ -	\$ 264,925
Construction in Progress	<u>9,729,367</u>	<u>4,846,433</u>	<u>(2,152,798)</u>	<u>12,423,002</u>
Total capital assets not being depreciated	<u>9,994,292</u>	<u>4,846,433</u>	<u>(2,152,798)</u>	<u>12,687,927</u>
Capital assets being depreciated				
Buildings	10,419,515	-	-	10,419,515
Improvements other than buildings	6,414,998	-	-	6,414,998
Machinery and equipment	<u>9,501,169</u>	<u>1,354,418</u>	<u>(545,116)</u>	<u>10,310,471</u>
Total capital assets being depreciated	<u>26,335,682</u>	<u>1,354,418</u>	<u>(545,116)</u>	<u>27,144,984</u>
Less accumulated depreciation for:				
Buildings	(2,804,309)	-	(240,935)	(3,045,244)
Improvements other than buildings	(2,309,307)	-	(159,210)	(2,468,517)
Machinery and equipment	<u>(6,725,242)</u>	<u>529,991</u>	<u>(740,362)</u>	<u>(6,935,613)</u>
Total accumulated depreciation	<u>(11,838,858)</u>	<u>\$ 529,991</u>	<u>\$ (1,140,507)</u>	<u>(12,449,374)</u>
Net capital assets being depreciated	<u>14,496,824</u>			<u>14,695,610</u>
Governmental activities capital assets net	<u>\$ 24,491,116</u>			<u>\$ 27,383,537</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Land	\$ 102,500	\$ -	\$ -	\$ 102,500
Construction in Progress	<u>119,600</u>	<u>489,007</u>	<u>-</u>	<u>608,607</u>
Total capital assets not being depreciated	<u>222,100</u>	<u>489,007</u>	<u>-</u>	<u>711,107</u>
Capital assets being depreciated				
Buildings	4,739,105	-	-	4,739,105
Machinery and equipment	1,906,198	774,373	241,818	2,438,753
Improvements	<u>45,715</u>	<u>-</u>	<u>-</u>	<u>45,715</u>
Total capital assets being depreciated	<u>6,691,018</u>	<u>774,373</u>	<u>241,818</u>	<u>7,223,573</u>
Less accumulated depreciation for:				
Buildings	(788,443)	-	(95,910)	(884,353)
Machinery and equipment	(1,037,113)	155,291	(206,060)	(1,087,882)
Improvements	<u>(38,181)</u>	<u>-</u>	<u>(1,520)</u>	<u>(39,701)</u>
Total accumulated depreciation	<u>(1,863,737)</u>	<u>\$ 155,291</u>	<u>\$ (303,490)</u>	<u>(2,011,936)</u>
Net capital assets being depreciated	<u>4,827,281</u>			<u>5,211,637</u>
Business type activities assets net	<u>\$ 5,049,381</u>			<u>\$ 5,922,744</u>

**8. Capital Assets – cont.**

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
General government	\$ 81,802
Public safety	102,876
Public works	637,347
Public health	683
Social and economic services	27,165
Culture and recreation	271,310
Housing and community development	19,324
	<u>\$ 1,140,507</u>
Business-type activities:	
Retirement home	\$ 91,867
Solid waste/garbage	163,805
Ambulance services	47,818
	<u>\$ 303,490</u>

**9. Statewide Retirement Plans**

The County participates in statewide cost-sharing multiple-employer defined benefit retirement plans which cover all employees, except certain part time employees. The Public Employee Retirement System (PERS) covers other employees. The plan is established by state law and is administered by the Department of Administration of the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan issues publicly available annual reports that include financial statements and required supplemental information for the plan. Those reports may be obtained from the following:

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154

The financial statement for PERS includes activity for the Defined Benefit and Defined Contribution Retirement Plans. The Defined Contribution Plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be co-mingled with those of another plan.

Contribution rates for the plans are required and determined by state law. The contribution rates expressed as a percentage of covered payrolls were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
PERS	7.07	7.90	14.97

For the year ended June 30, 2014, the State of Montana contributed .1% of the employees' payroll for PERS. This is considered an "on-behalf" payment. The County does not record this contribution in their financial statements, which is not in accordance with U.S. generally accepted accounting principles.

9. **Statewide Retirement Plans – cont.**

The covered payroll for each plan is as follows:

	<u>PERS</u>
Covered Payroll	\$ <u>3,296,288</u>
Employee Contributions	\$ 260,407
Employer Contributions	\$ 266,011

The County's contributions for the years ended June 30, 2012 and 2013 were \$190,823 and \$211,340 for PERS.

**Sheriffs Retirement Plan System (SRS)**

**Plan Description**

- a. The Sheriffs Retirement System (SRS) is a plan that was established in 1974 and is governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated. This plan provides retirement services to all Department of Justice Criminal Investigators hired after July 1, 1993 and to all Montana Sheriffs. The SRS is a mandatory multiple-employer cost-sharing defined benefit plan administered by the Public Employees Retirement Board (PERB).
- b. The SRS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 50 with at least five years of service or 20 years of service regardless of age. Monthly retirement benefits are determined by taking 2.5% of the final average salary for each year of creditable service. A guaranteed annual benefit adjustment (GABA) of 1.5% is provided each January for benefit recipients if they have been receiving a benefit for at least 36 months. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the state legislature.
- c. The SRS financial information is reported in the Public Employees Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year end. It is available from the PERB at 1712 Ninth Avenue P.O. Box 200131, Helena MT 59620-0131, (406) 444-3154.

**Funding Policy**

- a. The state legislature has the authority to establish and amend contribution rates to the plan.
- b. Plan members are required to contribute 9.245% of monthly compensation.
- c. Employers are required to contribute 10.115% of members' compensation.

9. **Statewide Retirement Plans – cont.**

d. One hundred percent of required contributions were received.

Required employee and employer contribution rates and the covered payroll amounts for the plan are as follows:

	<u>SRS</u>
Covered Payroll	\$ <u>477,979</u>
Employee	9.245%
Employer	10.115%

The County's contribution requirements for the fiscal year ended June 30, 2014 were as follows:

	<u>SRS</u>
Employer	\$ 48,348
Employee	44,189

The County's contribution for the years ended June 30, 2012 and 2013 are \$38,062 and \$44,647 respectively.

The County's total payroll for the fiscal year was \$4,005,110.

10. **Local Retirement Plans**  
**Deferred Compensation Plan**

The County offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. These assets are handled by a third party trustee in the name of the individual employees. The County no longer reports these assets on their financial statements.

11. **Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments that would be considered to be of a material amount against the County at June 30, 2014.

12. **Closure and Post-closure Care Costs**

For the fiscal year ending June 30, 2014, the County accounted for the operation of the landfill in a Solid Waste Enterprise Fund for the purpose of accounting for the landfill operations to include the closure and post-closure care costs and the associated liability.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. It is estimated 46.739% of the landfill is used at this date and the remaining life is 24.5 years.

**12. Closure and Post-closure Care Costs – cont.**

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined, due to changes in technology or applicable laws or regulations for example, these costs may need to be covered by charges to future landfill users.

As of June 30, 2014, the estimated closure costs were \$541,122 and the estimated post-closure costs were \$224,069 for a total of \$765,191. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

At June 30, 2014, the County had \$357,644 restricted for this purpose. In accordance with the Montana Department of Environmental Quality, \$357,644 has been set aside in a trust to help fund the closure and post-closure costs. The County currently contributes \$36,002 to the trust.

**13. Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Insurance Coverage**

As of July 1, 2009, the County changed carriers for Worker's Compensation coverage. The County now pays a premium for their coverage based on the wages paid and rate per classification.

Previous to July 1, 2009, the County was covered by the Montana Association of Counties Worker's Compensation Trust. The County has a reserve for the claims of \$13,600, but may have additional claims. No liability has been accrued for future liabilities.

**14. Restatements/Reclassifications**

June 30, 2013 fund balances have been restated to reflect the following adjustments:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	\$ 12	To adjust

**15. Subsequent Events**

The County has evaluated subsequent events through the date of this report. The County has committed to contracts in the amount of \$4,009,137.

**FALLON COUNTY, MONTANA**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2014**

**FALLON COUNTY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**General Fund**  
Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes/Special Assessments	\$ 3,201,358	\$ 3,201,358	\$ 3,227,826	\$ 26,468
Licenses and Permits	600	600	277	(323)
Intergovernmental Revenue	4,687,901	4,687,901	6,279,399	1,591,498
Charges for Service	348,007	348,007	395,601	47,594
Fines and Forfeitures	10,950	10,950	18,291	7,341
Miscellaneous Revenues	122,610	122,610	986,801	864,191
Investment and Royalty Earnings	300,000	300,000	363,628	63,628
Total revenues	<u>8,671,426</u>	<u>8,671,426</u>	<u>11,271,823</u>	<u>2,600,397</u>
<b>Expenditures:</b>				
Current:				
General Government	3,473,890	3,465,690	1,942,195	1,523,495
Public Safety	1,596,546	1,596,546	1,014,878	581,668
Public Works	3,305,000	3,305,000	83,847	3,221,153
Public Health	432,284	432,284	312,704	119,580
Social and Economic Services	733,354	733,354	525,869	207,485
Culture and Recreation	2,181,440	2,043,320	814,888	1,228,432
Housing and Community Development	297,903	297,903	223,573	74,330
Miscellaneous	12,000	12,000	1,570	10,430
Debt Service				
Principal	-	-	-	-
Interest	250	250	-	250
Capital outlay	2,364,575	2,510,895	1,651,724	859,171
Total expenditures	<u>14,397,242</u>	<u>14,397,242</u>	<u>6,571,248</u>	<u>7,825,994</u>
Excess of revenues over expenditures	<u>(5,725,816)</u>	<u>(5,725,816)</u>	<u>4,700,575</u>	<u>10,426,391</u>
Other Financing Sources (Uses):				
Sale of Assets	2,500	2,500	1,735	(765)
Transfer In	555,000	555,000	-	(555,000)
Total Other Financing Sources (Uses)	<u>557,500</u>	<u>557,500</u>	<u>1,735</u>	<u>(555,765)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (5,168,316)</u>	<u>\$ (5,168,316)</u>	<u>4,702,310</u>	<u>\$ 9,870,626</u>
Fund Balances - July 1, 2013 - as previously reported			9,970,746	
Prior period adjustments			<u>12</u>	
Fund Balances - July 1, 2013 - as restated			<u>9,970,758</u>	
Fund Balances - June 30, 2014			<u>\$ 14,673,068</u>	

**FALLON COUNTY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Road Fund**  
**Year Ended June 30, 2014**

	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>				
Taxes/Special Assessments	\$ 935,647	\$ 935,647	\$ 962,346	26,699
Intergovernmental Revenue	1,818,772	1,818,772	2,434,481	615,709
Charges for Services	3,500	3,500	4,800	1,300
Miscellaneous Revenues	3,000	3,000	10,169	7,169
Investment and Royalty Earnings	4,250	4,250	4,773	523
Total revenues	<u>2,765,169</u>	<u>2,765,169</u>	<u>3,416,569</u>	<u>651,400</u>
<b>Expenditures:</b>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	6,257,045	6,257,045	3,101,800	3,155,245
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	750,000	750,000	316,672	433,328
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>7,007,045</u>	<u>7,007,045</u>	<u>3,418,472</u>	<u>3,588,573</u>
Excess of revenues over expenditures	<u>(4,241,876)</u>	<u>(4,241,876)</u>	<u>(1,903)</u>	<u>4,239,973</u>
Other Financing Sources (Uses):				
Sale of Assets	2,500	2,500	13,836	11,336
Transfer Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>2,500</u>	<u>2,500</u>	<u>13,836</u>	<u>11,336</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (4,239,376)</u>	<u>\$ (4,239,376)</u>	11,933	<u>\$ 4,251,309</u>
<b>Fund Balances - July 1, 2013</b>			<u>6,722,316</u>	
<b>Fund Balances - June 30, 2014</b>			<u>\$ 6,734,249</u>	

**FALLON COUNTY, MONTANA**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Bridge Fund**  
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes/Special Assessments	\$ -	\$ -	\$ 3,706	\$ 3,706
Intergovernmental Revenue	1,341,510	1,341,510	1,503,358	161,848
Charges for Services	-	-	-	-
Miscellaneous Revenues	250	250	366	116
Investment and Royalty Earnings	2,650	2,650	3,385	735
Total revenues	<u>1,344,410</u>	<u>1,344,410</u>	<u>1,510,815</u>	<u>166,405</u>
<b>Expenditures:</b>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	3,123,991	3,123,991	582,994	2,540,997
Public Health	-	-	-	-
Social and Economic Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	2,000,000	2,000,000	953,936	1,046,064
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>5,123,991</u>	<u>5,123,991</u>	<u>1,536,930</u>	<u>3,587,061</u>
Excess of revenues over expenditures	<u>(3,779,581)</u>	<u>(3,779,581)</u>	<u>(26,115)</u>	<u>3,753,466</u>
Other Financing Sources (Uses):				
Sale of Assets	-	-	-	-
Transfer Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (3,779,581)</u>	<u>\$ (3,779,581)</u>	<u>(26,115)</u>	<u>\$ 3,753,466</u>
<b>Fund Balances - July 1, 2013</b>			<u>5,384,424</u>	
<b>Fund Balances - June 30, 2014</b>			<u>\$ 5,358,309</u>	

# FALLON COUNTY

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2014

### Budgets and Budgetary Accounting

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 latter of the second Monday in August or within 45 calendar days of 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 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.

Encumbrance accounting is not employed for the governmental funds. Encumbrances (e.g. purchase orders contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

### Reporting

The Statement of Revenues, Expenditures, and Changes in Fund Balances on page 8, combines the following:

	<u>General</u>	<u>Oil/Nat Gas</u>	<u>Total</u>
Fund balance, beginning \$	9,970,746 \$	8,734,184 \$	18,704,930 \$
Revenues	11,273,557	221,133	11,494,690
Expenditures	6,571,247	-	6,571,247
Prior period adjustments	12	-	12
Fund balance, ending \$	<u>14,673,068</u> \$	<u>8,955,317</u> \$	<u>23,628,385</u> \$

**FALLON COUNTY, MONTANA**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**FALLON COUNTY, MONTANA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Non-major Special Revenue Funds**  
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes/Special Assessments	\$ 1,129,392	\$ 1,129,392	\$ 1,144,019	\$ 14,627
Intergovernmental Revenue	1,864,959	1,864,959	2,523,948	658,989
Charges for Services	141,400	141,400	261,324	119,924
Fines and Forfeitures	955	955	-	(955)
Miscellaneous Revenues	28,440	28,440	31,929	3,489
Investment and Royalty Earnings	2,031	2,031	4,340	2,309
Total revenues	<u>3,167,177</u>	<u>3,167,177</u>	<u>3,965,560</u>	<u>798,383</u>
<b>Expenditures:</b>				
Current:				
General Government	15,406	13,406	574	12,832
Public Safety	355,000	422,500	308,680	113,820
Public Works	755,629	750,529	576,772	173,757
Public Health	1,304,044	1,304,044	1,101,055	202,989
Social and Economic Services	4,500	4,500	-	4,500
Culture and Recreation	1,331,123	1,331,123	857,443	473,680
Capital Outlay	2,375,296	2,315,796	1,051,730	1,264,066
Total expenditures	<u>6,140,998</u>	<u>6,141,898</u>	<u>3,896,254</u>	<u>2,245,644</u>
Excess of revenues over expenditures	<u>(2,973,821)</u>	<u>(2,974,721)</u>	<u>69,306</u>	<u>3,044,027</u>
Other Financing Sources (Uses):				
Sale of Assets	1,326	1,326	1,584	258
Operating Transfers In	11,656,119	11,656,119	-	(11,656,119)
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>11,657,445</u>	<u>11,657,445</u>	<u>1,584</u>	<u>(11,655,861)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 8,683,624</u>	<u>\$ 8,682,724</u>	<u>70,890</u>	<u>\$ (8,611,834)</u>
<b>Fund Balances - July 1, 2013</b>			<u>15,933,321</u>	
<b>Fund Balances - June 30, 2014</b>			<u>\$ 16,004,211</u>	

**FALLON COUNTY, MONTANA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual**  
**Capital Projects**  
Year Ended June 30, 2014

	<u>Original Budget Amounts</u>	<u>Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes/Special Assessments	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous Revenues	-	-	2,029	2,029
Investment and Royalty Earnings	-	-	3,973	3,973
Total revenues	<u>-</u>	<u>-</u>	<u>6,002</u>	<u>6,002</u>
<b>Expenditures:</b>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Public Health	-	-	-	-
Housing and Community Development	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	20,254,004	20,254,004	2,307,890	17,946,114
Debt Service				
Principle	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>20,254,004</u>	<u>20,254,004</u>	<u>2,307,890</u>	<u>17,946,114</u>
Excess of revenues over expenditures	<u>(20,254,004)</u>	<u>(20,254,004)</u>	<u>(2,301,888)</u>	<u>17,952,116</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	(11,656,119)	(11,656,119)	-	11,656,119
Total Other Financing Sources (Uses)	<u>(11,656,119)</u>	<u>(11,656,119)</u>	<u>-</u>	<u>11,656,119</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (31,910,123)</u>	<u>\$ (31,910,123)</u>	<u>(2,301,888)</u>	<u>\$ 29,608,235</u>
<b>Fund Balances - July 1, 2013</b>			<u>8,597,885</u>	
<b>Fund Balances - June 30, 2014</b>			<u>\$ 6,295,997</u>	



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**James J. Wosepka, PC – Certified Public Accountant**

Licensed in North Dakota and Montana

**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**

County Commissioners  
Fallon County  
Baker, Montana 59313

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fallon County, Baker, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fallon County, Baker, Montana's basic financial statements, and have issued our report thereon dated January 16, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Fallon County, Baker, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fallon County, Baker, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Fallon County, Baker, Montana'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fallon County, Baker, Montana's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings on page 48.

### **Fallon County, Baker, Montana's Response to Findings**

Fallon County, Baker, Montana's response to the findings identified in our audit is being sent to the State of Montana under a separate cover. Fallon County, Baker, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 16, 2015  
Baker, Montana

James J. Wosepka, PC

By  CPA

**FALLON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

DIRECT ASSISTANCE	<u>Description</u>	<u>Expenditures</u>	
US Dept. of Agriculture 10.666	School and Roads Grants to Counties*	511,697	
US Dept. of Transportation 20.106	Airport Improvement Program * (a)	512,923	
<b>TOTAL DIRECT ASSISTANCE</b>			<b>\$ 1,024,620</b>
 <b>STATE ADMINISTERED ASSISTANCE</b>			
MT Dept. of Military Affairs			
US Dept. of Homeland Security			
97.067	Homeland Security Grant Program *	767,788	
97.042	Emergency Management Performance Grant	31,002	798,790
MT Dept. of Public Health and Human Services			
US Dept. of Health and Human Services			
93.996	Bioterrorism Training and Curriculum Development Program	27,629	
93.268	Immunization Grants	8,467	
93.994	Maternal and Child Health Service Block Grant	2,398	38,494
US Dept. of Agriculture 10.578	WIC Grants to States	9,366	9,366
<b>Total State Administered Assistance</b>		<b>846,650</b>	
 Action for Eastern Montana Assistance			
US Dept. of Health and Human Service			
93.041	Program for Prevention of Elder Abuse, Neglect and Exploitation	45,243	45,243
<b>Total Action for Eastern Montana Assistance</b>		<b>45,243</b>	
<b>Total Federal Assistance</b>			<b>\$ 1,916,513</b>

The expenditures of Federal Awards are reported on a cash basis.

\* Major Programs

(a) Total Grants \$4,549,969, Balance \$321,595

**FALLON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014**

**A. SUMMARY OF AUDIT RESULTS**

1. The Auditor's Report expresses an unmodified opinion on the financial statements of Fallon County.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses were reported.
3. No instances of noncompliance, material to the financial statements of Fallon County, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal awards were disclosed during the audit.
5. The Auditor's Report on compliance for the major federal award programs for Fallon County expresses an unmodified opinion on all major federal programs.
6. Our audit showed no findings relative to the major federal award program required to be reported under Section 510(a) of OMB Circular A-133 for Fallon County.
7. The programs tested as major programs included: The Airport Improvement Program from the U.S. Department of Transportation 20.106, the Disaster Grant from the U.S. Department of Homeland Security 97.067, and School and Road Grants to Counties from the U.S. Department of Agriculture 10.666.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Fallon County was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

NONE

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NONE

**D. COUNTY'S RESPONSE**

N/A

**FALLON COUNTY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2014**

**1. Purpose of the schedule**

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by the U.S. Office of management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. Summary of significant accounting policies**

**A. Basis of presentation**

**Federal financial assistance**

Pursuant to the Single Audit Act Amendment of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Federal financial assistance does not include direct federal cash assistance to individuals.

**Catalog of federal domestic assistance**

OMB Circular A-133 requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Federal financial assistance programs which have not been assigned a CFDA number are indicated with an "N/A".

**B. Major programs**

The Single Audit Act Amendment of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$300,000.

**FALLON COUNTY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
**JUNE 30, 2014**

**C. Reporting entity**

The schedule includes all federal financial assistance programs administered by the County.

**D. Basis of accounting**

Federal financial assistance expenditures included in the schedule is reported using the same basis of accounting as disclosed in Note 1 of the basic financial statements.

**E. Matching costs**

The schedule does not include matching expenditures.

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

Board of County Commissioners  
Fallon County  
Baker, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Fallon County, Baker, Montana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fallon County, Baker, Montana's major federal programs for the year ended June 30, 2014. Fallon County, Baker, Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

### **Opinion on Each Major Federal Program**

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

### **Report on Internal Control Over Compliance**

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

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

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

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

January 16, 2015  
Baker, Montana

James J. Wosepka, PC  
By *James J. Wosepka*  
CPT

FALLON COUNTY  
BAKER, MONTANA

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2014

**CURRENT YEAR FINDINGS**

1. **OVERSPENT FUNDS**

Criteria: MCA 7-6-4005 states that a disbursement may not be made in excess of the total appropriations for a fund.

Condition: Two minor funds were overspent by a total of \$111. One was due to refunding funds received in a prior year and the other was at the closing out of a fund.

Effect: Not in compliance with law, but minor effect.

Recommendation: Review appropriations before making disbursements from funds.

2. **ANNUAL FINANCIAL REPORT NOT TIMELY FILED**

Criteria: MCA 2-7-503 and 7-6-611(2) require the Annual Financial Report of the preceding year to be filed with the State within six months of the end of the reporting period.

Condition: The Annual Financial report for June 30, 2014 was not filed until January, 2015.

Effect: The report was late.

Recommendation: Have enough staff available to complete the work timely.

**PRIOR YEAR FINDINGS**

None