

GARFIELD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

GARFIELD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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GARFIELD COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Teddy Robertson
Jerry Coldwell
Jerry Collins

Chairperson
Vice Chairperson
Commissioner

COUNTY OFFICIALS

Gary Ryder
Jennifer Crawford
Janet Sherer
Jennifer Crawford
Peggy Pierson
Jessica McWilliams
Clay Lammers

County Attorney
Treasurer
Clerk and Recorder
Clerk of District Clerk
Justice of the Peace
School Superintendent
Sheriff/Coroner

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Garfield County
Jordan, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Garfield County, 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 Garfield County, Montana, as of and for the year ended 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 budgetary comparison information and schedule of funding for other post employment benefits other than pensions on pages 34 through 36, and 37 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.

The County, Garfield County, Montana has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basis financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, on our consideration of the Garfield County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garfield County, Montana's internal control over financial reporting and compliance.

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

June 22, 2015

Garfield County, Montana
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 2,505,452	\$ 823,642	\$ 3,329,094
Taxes and assessments receivable, net	60,700	14,720	75,420
Accounts receivable - net	-	74,687	74,687
Due from other governments	10,260	-	10,260
Prepaid expenses	5,764	-	5,764
Inventories	50,156	28,351	78,507
Total current assets	<u>\$ 2,632,332</u>	<u>\$ 941,400</u>	<u>\$ 3,573,732</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 36,897	\$ 36,897
Capital assets - land	9,928	-	9,928
Capital assets - depreciable, net	3,496,061	956,961	4,453,022
Total noncurrent assets	<u>\$ 3,505,989</u>	<u>\$ 993,858</u>	<u>\$ 4,499,847</u>
Total assets	<u>\$ 6,138,321</u>	<u>\$ 1,935,258</u>	<u>\$ 8,073,579</u>
LIABILITIES			
Current liabilities			
Warrants payable	\$ 553	\$ -	\$ 553
Accounts payable	9,003	4,619	13,622
Accrued payroll	18,097	19,494	37,591
Current portion of long-term liabilities	1,891	-	1,891
Current portion of long-term capital liabilities	70,200	-	70,200
Current portion of compensated absences payable	61,105	44,076	105,181
Total current liabilities	<u>\$ 160,849</u>	<u>\$ 68,189</u>	<u>\$ 229,038</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 318,248	\$ 256,016	\$ 574,264
Noncurrent portion of long-term capital liabilities	49,800	-	49,800
Noncurrent portion of compensated absences	13,866	10,564	24,430
Total noncurrent liabilities	<u>\$ 381,914</u>	<u>\$ 266,580</u>	<u>\$ 648,494</u>
Total liabilities	<u>\$ 542,763</u>	<u>\$ 334,769</u>	<u>\$ 877,532</u>
NET POSITION			
Net investment in capital assets	\$ 3,385,989	\$ 956,961	\$ 4,342,950
Restricted for capital projects	61,670	-	61,670
Restricted for special projects	1,656,600	-	1,656,600
Unrestricted	491,299	643,528	1,134,827
Total net position	<u>\$ 5,595,558</u>	<u>\$ 1,600,489</u>	<u>\$ 7,196,047</u>

See accompanying Notes to the Financial Statements

Garfield County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 830,265	\$ 55,111	\$ 32,904	\$ -	\$ (742,250)	\$ -	\$ (742,250)
Public safety	342,441	9,969	191,984	-	(140,488)	-	(140,488)
Public works	702,280	3,409	9,286	-	(689,585)	-	(689,585)
Public health	131,711	-	9,607	-	(122,104)	-	(122,104)
Social and economic services	147,655	1,171	52,609	-	(93,875)	-	(93,875)
Culture and recreation	103,090	10,098	20,308	-	(72,684)	-	(72,684)
Debt service - interest	10,128	-	-	-	(10,128)	-	(10,128)
Miscellaneous	59	27,945	126	-	28,012	-	28,012
Total governmental activities	\$ <u>2,267,629</u>	\$ <u>107,703</u>	\$ <u>316,824</u>	\$ <u>-</u>	\$ <u>(1,843,102)</u>	\$ <u>-</u>	\$ <u>(1,843,102)</u>
Business-type activities:							
Nursing Home	\$ <u>2,028,773</u>	\$ <u>1,475,273</u>	\$ <u>350</u>	\$ <u>176,991</u>	\$ <u>-</u>	\$ <u>(376,159)</u>	\$ <u>(376,159)</u>
Total primary government	\$ <u>4,296,402</u>	\$ <u>1,582,976</u>	\$ <u>317,174</u>	\$ <u>176,991</u>	\$ <u>(1,843,102)</u>	\$ <u>(376,159)</u>	\$ <u>(2,219,261)</u>
General Revenues:							
Property taxes for general purposes					\$ 1,058,780	\$ 268,261	\$ 1,327,041
Licenses and permits					70	-	70
Fines, penalties and forfeitures					14,231	-	14,231
Miscellaneous					283,639	394,083	677,722
Interest/investment earnings					37,599	21,021	58,620
Intergovernmental revenues					450,699	-	450,699
Contributions & donations					516	-	516
Transfers - net					(35)	35	-
Total general revenues, special items and transfers					\$ <u>1,845,499</u>	\$ <u>683,400</u>	\$ <u>2,528,899</u>
Change in net position					\$ <u>2,397</u>	\$ <u>307,241</u>	\$ <u>309,638</u>
Net position - beginning					\$ 5,541,577	\$ 1,293,248	\$ 6,834,825
Restatements					51,584	-	51,584
Net position - beginning - restated					\$ <u>5,593,161</u>	\$ <u>1,293,248</u>	\$ <u>6,886,409</u>
Net position - end					\$ <u>5,595,558</u>	\$ <u>1,600,489</u>	\$ <u>7,196,047</u>

See accompanying Notes to the Financial Statements

Garfield County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Road	Capital Improve - OGS	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	\$ 862,901	\$ 288,368	\$ -	\$ 1,354,183	\$ 2,505,452
Taxes and assessments receivable, net	13,964	9,363	-	37,373	60,700
Due from other funds	19,715	-	-	-	19,715
Due from other governments	-	-	6,242	4,018	10,260
Prepaid expenses	-	-	-	5,764	5,764
Inventories	-	-	-	50,156	50,156
Total assets	\$ 896,580	\$ 297,731	\$ 6,242	\$ 1,451,494	\$ 2,652,047
Current liabilities:					
Warrants payable	\$ -	\$ -	\$ -	\$ 553	\$ 553
Accounts payable	1,907	108	4,663	2,325	9,003
Accrued payroll	8,264	2,286	-	7,547	18,097
Due to other funds	-	-	19,715	-	19,715
Total liabilities	\$ 10,171	\$ 2,394	\$ 24,378	\$ 10,425	\$ 47,368
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	\$ 13,964	\$ 9,363	\$ -	\$ 37,373	\$ 60,700
FUND BALANCES					
Nonspendable	\$ -	\$ -	\$ -	\$ 50,156	\$ 50,156
Restricted	-	285,974	-	1,273,734	1,559,708
Committed	-	-	-	79,806	79,806
Unassigned fund balance	872,445	-	(18,136)	-	854,309
Total fund balance	\$ 872,445	\$ 285,974	\$ (18,136)	\$ 1,403,696	\$ 2,543,979

See accompanying Notes to the Financial Statements

Garfield County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 2,543,979
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,505,989
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	60,700
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(515,110)
Total net position - governmental activities	\$ <u><u>5,595,558</u></u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Capital Improve - OGS</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 345,645	\$ 183,281	\$ -	\$ 483,294	\$ 1,012,220
Licenses and permits	70	-	-	-	70
Intergovernmental	263,048	182,168	6,242	337,523	788,981
Charges for services	50,832	304	-	20,587	71,723
Fines and forfeitures	15,170	-	-	3,906	19,076
Miscellaneous	157,701	47,340	-	129,870	334,911
Investment earnings	21,639	13,917	-	2,043	37,599
Internal services	-	-	-	7,453	7,453
Total revenues	<u>\$ 854,105</u>	<u>\$ 427,010</u>	<u>\$ 6,242</u>	<u>\$ 984,676</u>	<u>\$ 2,272,033</u>
EXPENDITURES					
General government	\$ 609,155	\$ -	\$ 15,793	\$ 88,015	\$ 712,963
Public safety	61,984	-	-	239,247	301,231
Public works	-	231,298	-	283,317	514,615
Public health	48,915	-	-	81,731	130,646
Social and economic services	890	-	-	141,417	142,307
Culture and recreation	7,612	-	-	88,134	95,746
Debt service - principal	-	65,000	-	6,000	71,000
Debt service - interest	-	10,000	-	128	10,128
Miscellaneous	-	-	-	59	59
Capital outlay	-	29,500	-	-	29,500
Total expenditures	<u>\$ 728,556</u>	<u>\$ 335,798</u>	<u>\$ 15,793</u>	<u>\$ 928,048</u>	<u>\$ 2,008,195</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 125,549</u>	<u>\$ 91,212</u>	<u>\$ (9,551)</u>	<u>\$ 56,628</u>	<u>\$ 263,838</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	-	100	-	13,000	13,100
Transfers out	-	-	-	(13,135)	(13,135)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ (135)</u>	<u>\$ (35)</u>
Net Change in Fund Balance	<u>\$ 125,549</u>	<u>\$ 91,312</u>	<u>\$ (9,551)</u>	<u>\$ 56,493</u>	<u>\$ 263,803</u>
Fund balances - beginning	\$ 746,896	\$ 194,662	\$ (8,585)	\$ 1,347,203	\$ 2,280,176
Fund balance - ending	<u>\$ 872,445</u>	<u>\$ 285,974</u>	<u>\$ (18,136)</u>	<u>\$ 1,403,696</u>	<u>\$ 2,543,979</u>

See accompanying Notes to the Financial Statements

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

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

Net change in fund balances - total governmental funds \$ 263,803

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	29,500
- Depreciation expense	(276,734)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)	(1,972)
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The change in compensated absences is shown as an expense in the Statement of Activities

9,384

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments	71,000
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability	(92,584)
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Change in net position - Statement of Activities \$ 2,397

See accompanying Notes to the Financial Statements

Garfield County, Montana
Statement of Net Position
Proprietary Fund
June 30, 2014

		<u>Business-Type Activities - Enterprise Fund</u>
		<u>Nursing Home</u>
ASSETS		
Current assets:		
Cash and investments	\$	823,642
Taxes and assessments receivable, net		14,720
Accounts receivable - net		74,687
Inventories		28,351
Total current assets	\$	<u>941,400</u>
Noncurrent assets:		
Restricted cash and investments	\$	36,897
Capital assets - depreciable, net		956,961
Total noncurrent assets	\$	<u>993,858</u>
Total assets	\$	<u>1,935,258</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$	4,619
Accrued payroll		19,494
Current portion of compensated absences payable		44,076
Total current liabilities	\$	<u>68,189</u>
Noncurrent liabilities:		
Noncurrent portion of long-term liabilities	\$	256,016
Noncurrent portion of compensated absences		10,564
Total noncurrent liabilities	\$	<u>266,580</u>
Total liabilities	\$	<u>334,769</u>
NET POSITION		
Net investment in capital assets	\$	956,961
Unrestricted		643,528
Total net position	\$	<u>1,600,489</u>
Total liabilities and net position	\$	<u>1,935,258</u>

See accompanying Notes to the Financial Statements

Garfield County, Montana
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

		Business-Type Activities - Enterprise Fund
		<u>Nursing Home</u>
OPERATING REVENUES		
Charges for services	\$	1,475,273
Miscellaneous revenues		385,606
Total operating revenues	\$	<u>1,860,879</u>
OPERATING EXPENSES		
Personal services	\$	1,199,471
Supplies		456,015
Purchased services		291,972
Fixed charges		10,877
Depreciation		70,438
Total operating expenses	\$	<u>2,028,773</u>
Operating income (loss)	\$	<u>(167,894)</u>
NON-OPERATING REVENUES (EXPENSES)		
Taxes/assessments revenue	\$	268,261
Intergovernmental revenue		185,818
Interest revenue		21,021
Total non-operating revenues (expenses)	\$	<u>475,100</u>
Income (loss) before contributions and transfers	\$	<u>307,206</u>
Transfers in		35
Change in net position	\$	<u>307,241</u>
Net Position - Beginning of the year	\$	1,293,248
Net Position - End of the year	\$	<u>1,600,489</u>

See accompanying Notes to the Financial Statements

Garfield County
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

		Business - Type Activity - Enterprise Funds
		Nursing Home
Cash flows from operating activities:		
Cash received from providing services	\$	1,495,694
Cash received from miscellaneous sources		385,606
Cash payments to suppliers		(464,168)
Cash payments for professional services		(291,972)
Cash payments to employees		(1,113,876)
Net cash provided (used) by operating activities	\$	<u>11,284</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	\$	(287,554)
Net cash provided (used) by capital and related financing activities	\$	<u>(287,554)</u>
Cash flows from non-capital financing activities:		
Tax levies and contributions from the County	\$	269,605
Cash received from restricted gifts		35
Cash received from other sources		185,818
Net cash provided (used) from non-capital financing activities	\$	<u>455,458</u>
Cash flows from investing activities:		
Interest on investments	\$	21,021
Net cash provided (used) by investing activities	\$	<u>21,021</u>
Net increase (decrease) in cash and cash equivalents	\$	200,209
Cash and cash equivalents at beginning		<u>660,330</u>
Cash and cash equivalents at end	\$	<u><u>860,539</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$	(167,894)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		70,438
Other post-employment benefits		78,868
Changes in assets and liabilities:		
Decrease in accounts receivable		20,421
Increase in accounts payable		2,724
Increase in compensated absences		2,904
Increase in accrued wages		3,823
Net cash provided (used) by operating activities	\$	<u><u>11,284</u></u>

See accompanying notes to the financial statements

Garfield County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Investment Trust Funds		Agency Funds
ASSETS			
Cash and short-term investments	\$ 744,112	\$	957,835
Taxes receivable	-		74,201
Total assets	\$ 744,112	\$	1,032,036
LIABILITIES			
Warrants payable	\$ -	\$	320,035
Due to others	-		712,001
Total liabilities	\$ -	\$	1,032,036
NET POSITION			
Assets held in trust	\$ 744,112		

See accompanying Notes to the Financial Statements

Garfield County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

		<u>Investment Trust Funds</u>
ADDITIONS		
Contributions:		
Contributions to Investment Trust Fund	\$	1,313,017
Investment earnings:		
Interest and change in fair value of investments		4,876
Total additions	\$	<u>1,317,893</u>
DEDUCTIONS		
Distributions from investment trust fund	\$	<u>1,505,477</u>
Total deductions	\$	<u>1,505,477</u>
Change in net position	\$	<u>(187,584)</u>
 Net Position - Beginning of the year	 \$	 931,696
 Net Position - End of the year	 \$	 <u><u>744,112</u></u>

See accompanying Notes to the Financial Statements

GARFIELD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

Financial Reporting Entity

In determining the financial reporting entity, the County complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the County appointed a voting majority of the component units' board; the County is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the County complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the County.

Primary Government

The County is a political subdivision of the State of Montana governed by an elected three-member Board of Commissioners duly elected by the registered voters of the County. The County utilizes the commission form of government. The County is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

GARFIELD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

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Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

The County defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be "upon receipt". Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Major Funds:

The County reports the following major governmental funds:

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

Road Fund – The fund accounts for resources accumulated and payments made for the maintenance, repair, and construction of county-owned roads.

Capital Improvements – OGS – This fund is a capital projects used to account for capital project of installing and improving the sidewalks of the Old Grade School.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

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 connections with a proprietary fund’s principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The County reports the following major proprietary funds:

Nursing Home – The fund accounts for the resources accumulated and payments made for the Nursing Home.

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Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

Investment Trust Funds – To report the external portion of investment pools reported by the sponsoring government.

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 450
Cash in banks:	
Demand deposits	407,272
Savings deposits	3,359,216
Time deposits	1,300,000
Fiscal agent deposits	
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	1,000
Total	\$ 5,067,938

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

(a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder’s ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or

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(c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be placed in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Section 7-6-202, MCA, as amended, now limits authorized investments in certain securities that previously were permissible investments. The amendment does not apply to and does not require the sale of securities that were legal investments before the effective date of this act. However, the investments reported as collateralized mortgage obligations above are not authorized investments at the current time.

The government has no investment policy that would further limit its investment choices.

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *

GARFIELD COUNTY, MONTANA
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“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

Audited financial statements for the State of Montana’s Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

Custodial Credit Risk

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

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 500,025
- Collateral held by the pledging bank's trust department but not in the County's name.	2,625,915
Uninsured and uncollateralized	1,990,404
Total deposits and investments	<u>\$ 5,116,344</u>

Deposit Security

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

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

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

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and investments.”

Investment in the Treasurer’s Pools

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County’s investment policy and Montana law. The County’s pools are managed by the County Treasurer. The external portion of the County’s investment pools are accounted for as investment trust funds.

GARFIELD COUNTY, MONTANA
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The County invested trust fund included demand, money market interest earning accounts, certificates of deposit and investment held with STIP, and the value is carried at cost.

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

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

As noted below State statutes limit the type of investments but provide no other regulatory oversight.

Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's month end cash balance in relation to total pooled investments.

Condensed statements of investments pools

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2014.

Statement of Net Assets

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 4,317,878
Equity of external pool participants	744,112
Total equity	<u>\$ 5,061,990</u>

Condensed Statement of Changes in Net Assets

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 4,876	\$ 28,292
Contributions to trust	1,313,017	7,901,675
Distributions paid	(1,505,477)	(7,096,013)
Net change in net assets	<u>\$ (187,584)</u>	<u>\$ 833,954</u>
Net assets at beginning of year	931,696	3,483,924
Net assets at end of year	<u>\$ 744,112</u>	<u>\$ 4,317,878</u>

Cash equivalents

For purposes of the statement of cash flows, the enterprise and internal services funds consider all funds (including restricted assets) held in the County's cash management pool to be cash equivalents.

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NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the County as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Nursing Home General	\$ 11,599
Nursing Home Equipment	18,319
Nursing Home Landscaping	3,821
Nursing Home Activities	<u>3,158</u>
	<u>\$ 36,897</u>

NOTE 4. RECEIVABLES

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

Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes 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.

NOTE 5. ECONOMIC DEVELOPMENT LOAN PROGRAM

The remaining balance of the CDBG Revolving Loan fund money is held at \$73,419. The County uses this money as collateral for the local bank to make loans to businesses in the community. The Bank makes the loan after discussion of a loan committee and recommendation of the County Commissioners. No loans were made during the fiscal year 2014.

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NOTE 6. INVENTORIES

Inventories are valued at cost using the First In First Out (FIFO) method. The following funds held inventories at June 30, 2014.

<u>Fund</u>	<u>Amount</u>
Bridge	\$ 50,156
Nursing Home	\$ 27,002

NOTE 7. CAPITAL ASSETS

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

Buildings	30 – 100 years
Improvements other than Buildings	15 – 20 years
Machinery and Equipment	7 – 25 years
Vehicles and Heavy Equipment	7 – 25 years

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

Governmental activities:

	<u>Balance</u>				<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 9,928	\$ -	\$ -	\$ -	\$ 9,928
Other capital assets:					
Buildings	\$ 2,181,046	\$ -	\$ -	\$ -	\$ 2,181,046
Improvements other than buildings	1,741,237	-	-	-	1,741,237
Machinery and equipment	2,502,835	29,500	(26,500)	-	2,505,835
Total other capital assets at historical cost	\$ 6,425,118	\$ 29,500	\$ (26,500)	\$ -	\$ 6,428,118
Less: accumulated depreciation	\$ (2,733,407)	\$ (276,734)	\$ 26,500	\$ 51,584	\$ (2,932,057)
Total	\$ 3,701,639	\$ (247,234)	\$ -	\$ 51,584	\$ 3,505,989

GARFIELD COUNTY, MONTANA
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Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 34,102
Public safety	41,210
Public works	187,665
Public health	1,065
Social and economic services	5,348
Culture and recreation	<u>7,343</u>
Total governmental activities depreciation expense	<u>\$ 276,734</u>

A summary of changes in business-type capital assets was as follows:

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Other capital assets:			
Buildings	\$ 1,202,878	\$ -	\$ 1,202,878
Machinery and equipment	<u>195,000</u>	<u>287,553</u>	<u>482,553</u>
Total other capital assets at historical cost	\$ 1,397,878	\$ 287,553	\$ 1,685,431
Less: accumulated depreciation	<u>\$ (658,032)</u>	<u>\$ (70,438)</u>	<u>\$ (728,470)</u>
Total	<u>\$ 739,846</u>	<u>\$ 217,115</u>	<u>\$ 956,961</u>

NOTE 8. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Contracted debt	\$ 25,600	\$ -	\$ (6,000)	\$ 19,600	\$ 1,891
Compensated absences	84,355	-	(9,384)	74,971	61,105
Capital leases	185,000	-	(65,000)	120,000	70,200
Other post-employment benefits*	207,955	92,584	-	300,539	-
Total	<u>\$ 502,910</u>	<u>\$ 92,584</u>	<u>\$ (80,384)</u>	<u>\$ 515,110</u>	<u>\$ 133,196</u>

*See Note 9

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

Business-type Activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Due Within</u> <u>One Year</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 51,736	\$ 2,904	\$ 54,640	\$ 44,076
Other post-employment benefits*	177,148	78,868	256,016	-
Total	<u>\$ 228,884</u>	<u>\$ 81,772</u>	<u>\$ 310,656</u>	<u>\$ 44,076</u>

*See Note 9

Loans/Contracted Debt

Loans/contracted debts outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
RD-Loan	9/24/12	3.50%	10 yrs	9/24/22	\$ <u>19,600</u>	\$ <u>19,600</u>
Reported in the governmental activities.						

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,891	\$ 686
2016	1,957	620
2017	2,026	551
2018	2,097	480
2019	2,170	407
2020	2,246	331
2021	2,325	252
2022	2,406	171
2023	2,482	87
Total	<u>\$ 19,600</u>	<u>\$ 3,585</u>

Capital Leases

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Road Graders	7/5/11	4.00%	4 yrs	7/5/15	\$ <u>250,000</u>	\$ <u>120,000</u>
Reported in the governmental activities.						

GARFIELD COUNTY, MONTANA
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Annual requirement to amortize debt:

For Fiscal Year Ended	Principal	Interest
2015	\$ 70,200	\$ 4,800
2016	49,800	1,992
Total	<u>\$ 120,000</u>	<u>\$ 6,792</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the County's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from County service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 9. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

GARFIELD COUNTY, MONTANA
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Funding Status and funding Progress. The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	556,555
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	556,555
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,185,456
UAAL as a percentage of covered payroll		46.95%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$	180,440
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	180,440
Contributions made	\$	-
Increase in net OPEB obligation	\$	171,452
Net OPEB obligation - beginning of year	\$	385,103
Net OPEB obligation - end of year	\$	556,555

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

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	0.17%
Average salary increase (Consumer Price Index)	2.80%

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

<u>Year</u>	<u>% Increase</u>
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.9%

NOTE 10. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
To cover negative cash balance	General – Major Governmental	Capital Improvement – OGS – Major Governmental	\$ <u>19,715</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Transfer balances from inactive funds	Road – Major Governmental	Emergency Disaster – Nonmajor Governmental	\$ 100
Insurance expenses	Insurance – Nonmajor Governmental	Health Facilities – Nonmajor Governmental	9,000
Insurance expenses	Insurance – Nonmajor Governmental	Senior Citizens Transportation – Nonmajor Governmental	4,000
Transfer balances from inactive funds	Nursing Home – Major Proprietary	GCHC – Nonmajor Governmental	<u>35</u>
			\$ <u>13,135</u>

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NOTE 11. STATE-WIDE RETIREMENT PLANS

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS), Sheriffs Retirement System (SRS), and Teachers Retirement System (TRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014 for the defined benefit plans, were:

	<u>PERS**</u>	<u>SRS</u>	<u>TRS</u>
Employer	8.07%	10.115%	8.47%
Employee	7.90%*	9.245%	8.15%
State	0.10%	-	2.49%

* For PERS members hired before 7/1/2011 that rate is 6.9%

** For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account.

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the County's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The Entity's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>	<u>TRS</u>
2012	\$ 60,715	\$ 7,502	\$ 1,798
2013	\$ 62,353	\$ 7,731	\$ 1,918
2014	\$ 83,608	\$ 8,468	\$ 2,213

GARFIELD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 12. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

The Entity offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Entity employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 13. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
All Other Aggregate	\$ <u>50,156</u>	Public works

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 285,974	Public works
All Other Aggregate	240,556	General government
	381,574	Public works
	280,379	Public health
	144,758	Culture and recreation
	94,793	Social and economic services
	<u>131,674</u>	Public Safety
Total	<u>\$ 1,559,708</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate	\$ 10,195	Public works
	19,872	Public safety
	629	Public health
	<u>49,110</u>	General government
Total	<u>\$ 79,806</u>	

GARFIELD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 14. DEFICIT FUND BALANCES/NET POSITION

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Capital Improvement – OGS	\$ <u>18,136</u>	Insufficient grant revenues	Grants revenues or transfer from General Fund

NOTE 15. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Government-Wide	\$ <u>51,584</u>	Depreciation adjustment

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

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.

NOTE 17. RISK MANAGEMENT

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

Insurance Policies:

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

GARFIELD COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Insurance Pools:

County has joined with other Montana counties to form a self-insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Workers' Compensation Trust, has entered into an agreement with a private management firm to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The Counties do not exercise specific control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Workers' Compensation Trust.

The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Joint Powers Insurance Trust.

NOTE 18. SUBSEQUENT EVENTS

In November 2014, the County received a \$500,000 gift from the Trust of Mary J. Rickner in supporting of Garfield County Health Center. The gift has been set up as a special revenue fund because the endowment is not restrictive in nature. The County plans to use it for purchases of equipment for the Health Center.

In January 2015, the County received a promissory note from the local bank, totaling \$217,245 at an interest rate of 4%, to purchase a new motor grader. The loan will be paid back over a 5 year term with the last payment being made in 2020. The purchase of the new equipment is a part of the County's plan to progressively update its road equipment, and plans to have additional purchases in the future.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Garfield County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 274,173	\$ 274,173	\$ 345,645	\$ 71,472
Licenses and permits	-	-	70	70
Intergovernmental	454,032	454,032	247,471	(206,561)
Charges for services	48,100	48,100	50,832	2,732
Fines and forfeitures	9,150	9,150	15,170	6,020
Miscellaneous	107,500	107,500	157,701	50,201
Investment earnings	20,000	20,000	21,638	1,638
Internal services	16,300	16,300	-	(16,300)
Amounts available for appropriation	<u>\$ 929,255</u>	<u>\$ 929,255</u>	<u>\$ 838,527</u>	<u>\$ (90,728)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ 797,550	\$ 797,550	\$ 593,099	\$ 204,451
Public safety	232,920	232,920	61,984	170,936
Public works	-	-	-	-
Public health	67,627	67,627	48,915	18,712
Social and economic services	6,150	6,150	890	5,260
Culture and recreation	500	500	125	375
Debt service - principal	45,000	45,000	-	45,000
Debt service - interest	-	-	-	-
Capital outlay	77,250	77,250	-	77,250
Total charges to appropriations	<u>\$ 1,226,997</u>	<u>\$ 1,226,997</u>	<u>\$ 705,013</u>	<u>\$ 521,984</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 133,514</u>	
Fund balance - beginning of the year			<u>\$ 710,928</u>	
Fund balance - end of the year			<u><u>\$ 844,442</u></u>	

Garfield County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Road			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Taxes and assessments	\$ 187,512	\$ 187,512	\$ 183,281	\$ (4,231)
Licenses and permits	-	-	-	-
Intergovernmental	158,459	158,459	182,168	23,709
Charges for services	-	-	304	304
Fines and forfeitures	-	-	-	-
Miscellaneous	100	100	43,498	43,398
Investment earnings	28,000	(2,800)	13,917	16,717
Internal services	-	-	-	-
Amounts available for appropriation	<u>\$ 374,071</u>	<u>\$ 343,271</u>	<u>\$ 423,168</u>	<u>\$ 79,897</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	292,400	292,400	231,298	61,102
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Debt service - principal	65,000	65,000	65,000	-
Debt service - interest	10,000	10,000	10,000	-
Capital outlay	130,000	130,000	29,500	100,500
Total charges to appropriations	<u>\$ 497,400</u>	<u>\$ 497,400</u>	<u>\$ 335,798</u>	<u>\$ 161,602</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ 3,842	\$ 3,842
Transfers in	30,000	30,000	100	(29,900)
Total other financing sources (uses)	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 3,942</u>	<u>\$ (26,058)</u>
Net change in fund balance			<u>\$ 91,312</u>	
Fund balance - beginning of the year			<u>\$ 194,662</u>	
Fund balance - end of the year			<u><u>\$ 285,974</u></u>	

**Garfield County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation**

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	General	Road
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 838,527	\$ 427,010
Combined funds (GASBS 54) revenues	15,578	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 854,105	\$ 427,010
Uses/Outflows of resources		
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 705,013	\$ 335,798
Combined funds (GASBS 54) expenditures	23,543	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 728,556	\$ 335,798

Garfield County
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	\$ 556,555	\$ -	\$ 556,555	0%	\$ 1,185,456	46.9%

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

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

Board of County Commissioners
Garfield County
Jordan, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Garfield County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Garfield County's basic financial statements and have issued our report thereon dated June 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garfield County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Garfield County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Garfield County's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses as identified as item 2014-001 and 2014-002.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described below to be significant deficiencies as identified as items 2014-003 and 2014-004.

2014-001 Segregation of Duties

Condition:

During our review of Garfield County's internal controls we noted in the small office collection locations; there is an absence of segregation of duties due to the size of many of the offices. These offices included the Fair, Justice Court and County Treasurer offices. Additionally it was noted that the Treasurer's office only has one signature required for Treasurer's checks (disbursements). This is a repeat finding from FY 13.

Context:

The auditor completed an internal control review of the related departments through inquiry, observation, and supporting documentation review.

Criteria:

Auditing Standards required the auditor to assess the design or operation of the internal controls to assess if the controls in place allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect design flaws in the control procedure and correct misstatements. The components of internal controls include: control environment; risk assessment; information and communications; monitoring; control activities.

Effect:

One of the main elements of internal control is separation of duties so one individual cannot perpetuate and conceal errors and irregularities in the normal course of business operations.

Cause:

This is a small office with limited staff to properly segregate the duties.

Recommendation:

We recommend the County segregate the duties of receiving payments from the duties of recording payments and adjusting accounts.

Auditee Response:

The County will review their control procedures and address the issue of adjustments for fiscal year 2015.

2014-002 Health Center Segregation of Duties

Condition:

During our review of the Health Center's internal controls we noted there is a lack of segregation of duties. One person receives, records, adjusts and reconciles the accounts with little oversight. This is a repeat finding from Fiscal year 2013.

Context:

The auditor completed an internal control review of the Health Center through inquiry, observation, and documentation.

Criteria:

Auditing Standards required the auditor to assess the design or operation of the internal controls to assess if the controls in place allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect design flaws in the control procedure and correct misstatements. The components of internal controls include: control environment; risk assessment; information and communications; monitoring; control activities.

Effect:

One of the main elements of internal control is separation of duties so one individual cannot perpetuate and conceal errors and irregularities in the normal course of business operations.

Cause:

This is a small office with limited staff to properly segregate the duties.

Recommendation:

We recommend the County segregate the duties of receiving payments from the duties of recording payments and adjusting accounts.

Auditee Response:

The County will review their control procedures and address the issue of adjustments for fiscal year 2015.

2014-003 Pledged Securities**Condition:**

During our review of the Health Center's internal controls we noted there is a lack of segregation of duties. One person receives, records, adjusts and reconciles the accounts with little oversight. This is a repeat finding from Fiscal year 2013.

Context:

During our substantive testing of cash, the auditor noted that the County had a significant amount its deposits that were not insured or backed by pledged securities.

Criteria:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County does not have collateral to ensure that in the event of bank failure, the deposits will be returned to the County.

Effect:

On June 30, 2014, the County had deposits of \$1,990,404, about 39% of total deposits, were uninsured and uncollateralized.

Cause:

The County does not hold pledged securities that adequately cover the uninsured cash deposits.

Recommendation:

We recommend the County increase the amount of pledged securities available for the uninsured cash balances.

Auditee Response:

The Treasurer and the Commissioners will continue to review the pledged securities available and their adequacy and determine if additional pledged securities are considered to be necessary.

2014-004 Required Supplementary Information

Condition:

Management has omitted the management discussion and analysis that the generally accepted account principles require to be presented as a supplement to the basic financial statements.

Context:

We did not receive the management discussion and analysis to include with the audit report.

Criteria:

Generally accepted accounting principles require that management prepare a management discussion and analysis to introduce the basic financial statements and provide an analytical overview of the governments financial activities.

Effect:

The County is not following the generally accepted accounting principles set by the GASB.

Cause:

The County did not prepare the management discussion and analysis letter.

Recommendation:

Annually should prepare and develop a management discussion and analysis as required by the generally accepted accounting principles.

Auditee Response:

The County will ensure there are policies and procedures are in place requiring an MD&A to be prepared for future years.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Garfield County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Garfield County's Response to Findings

Garfield County's response to the findings identified in our audit is described above. Garfield County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

June 22, 2015

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

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of County Commissioners
Garfield County
Jordan, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Negative Cash Balances	Implemented
Segregation of Duties	Repeated
Pledged Securities	Repeated
Health Center Segregation of Duties	Repeated

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

June 22, 2015