

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**FINANCIAL &  
COMPLIANCE  
REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2014**

**RONALD PAUL FOLTZ  
CERTIFIED PUBLIC ACCOUNTANT**

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

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**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**ELECTED OFFICIALS**

JUNE 30, 2014

|                               |  |
|-------------------------------|--|
| Board of County Commissioners | Scott Adler, Chair<br>Bart Bonney<br>Clifford Nelson |
| Attorney                      | Christopher Miller                                   |
| Clerk and Recorder/Assessor   | Blanche McLure                                       |
| Clerk of District Court       | Carol Bohrsen  |
| Justice of the Peace          | Debbie Fratzke                                       |
| School Superintendent         | Vicki Harding  |
| Sheriff                       | Scott Dunkerson                                      |
| Treasurer                     | Vicki Harding  |

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the report provides readers with a narrative overview and analysis of the financial activities of Granite County for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements to enhance their understanding of the County's financial performance.

**FINANCIAL HIGHLIGHTS**

The County's total net position increased by \$5,460,000 mostly due to the contribution of the Flint Creek Hydroelectric infrastructure assets, \$833,000 of other purchased capital assets, and unspent funds received in 2014. Total net position was \$12,596,000 at the end of the fiscal year 2014. Of this amount, \$1,843,000 is unrestricted and may be used to meet the County's ongoing obligations. The remainder includes \$7,588,000 invested in capital assets (net of related debt) and \$3,165,000 in externally restricted for specific purposes.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The basic financial statements contain three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

- 1. Government-wide Financial Statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances in a manner similar to a private sector business.

The *statement of net position* (page 12) presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the County's financial position is improving or deteriorating.

The *statement of activities* (page 13) presents information showing how the County's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. As a result, revenues and expenses are reported in the statement for some items that will only require cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues. Government activities included general government, public safety, public works, public health, culture and recreation, social and economic, housing and community development, debt service, and comprehensive insurance costs.

- 2. 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 or objectives. Granite County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Granite County can be divided into two categories: (a) *government funds*, and (b) *fiduciary funds*.

- a. **Government Funds** - Government funds are used to account for essentially the same functions reported as *government activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements report using the modified accrual basis of accounting which focuses on the *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Under this method, revenues are recognized when measurable and available. State and other government revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Property tax revenues are reported on the cash basis because most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflows of resources are recorded in the government funds for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. Capital asset acquisitions are reported as expenditures in government funds and the proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Both the government fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation between *government funds* and *government activities* view of financial position. These statements are found on pages 14 - 17.

Granite County maintains several government funds. Major funds are defined as the general fund and any other fund where the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% of total government fund amounts. Information is presented separately for the General Fund, Road Fund, and Flint Creek Hydroelectric Project Fund which are considered major government funds. Data for the other non-major funds are combined into a single column.

Schedules providing budgetary comparison for the major government funds have been provided within this report to demonstrate compliance with budgets.

- b. **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* included in the government-wide financial statements because the resources of these funds are not available to support the County's operations. The basic fiduciary fund financial statements are on page 18.

3. **Notes to the 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 19 - 30.

## COUNTY-WIDE FINANCIAL ANALYSIS

The following table provides a summary comparison of the County's government-wide net position for fiscal year 2014 to fiscal year 2013.

**Granite County**

**Government-wide Net Position**

|  | 2014                | 2013               | Change             | %          |
|--|---------------------|--------------------|--------------------|------------|
| <b>Assets</b>  |                     |                    |                    |            |
| Current and Other Assets .....                           | \$5,491,000         | \$5,034,000        | \$457,000          | 9%         |
| Capital Assets .....                                     | 7,633,000           | 2,611,000          | 5,022,000          | 192%       |
| <b>Total Assets .....</b>                                | <b>13,124,000</b>   | <b>7,645,000</b>   | <b>5,479,000</b>   | <b>72%</b> |
| <b>Liabilities and Deferred Inflows</b>                  |                     |                    |                    |            |
| Current Liabilities .....                                | 151,000             | 134,000            | 17,000             | 13%        |
| Long-term Liabilities .....                              | 62,000              | 77,000             | (15,000)           | (19)%      |
| Deferred Revenues .....                                  | 315,000             | 298,000            | 17,000             | 6%         |
| <b>Total Liabilities and Deferred Inflows ...</b>        | <b>528,000</b>      | <b>509,000</b>     | <b>19,000</b>      | <b>4%</b>  |
| <b>Net Position</b>                                      |                     |                    |                    |            |
| Invested in Capital Assets,<br>Net of Related Debt ..... | 7,588,000           | 2,546,000          | 5,042,000          | 198%       |
| Restricted .....   | 3,165,000           | 3,003,000          | 162,000            | 5%         |
| Unrestricted .....                                       | 1,843,000           | 1,587,000          | 256,000            | 16%        |
| <b>Total Net Position .....</b>                          | <b>\$12,596,000</b> | <b>\$7,136,000</b> | <b>\$5,460,000</b> | <b>77%</b> |

The large increase in capital assets and net investment in capital assets is because of the contribution of Flint Creek Hydroelectric assets valued at \$4,558,000 to the County in 2014. Additionally, the County had purchases of equipment of \$521,000 and construction in progress of \$312,000 offset by capital asset deletions of \$256,000 and depreciation expense of \$335,000.

The amount invested in government capital assets, net of related debt, represents 60% of total net position at June 30, 2014. These assets include land, buildings, machinery, and equipment. Capital assets are used to provide services to citizens; consequently, they are not available for future spending.

An additional \$3,165,000 of the County's net position (25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted assets of \$1,843,000 (15%) may be used to meet the County's ongoing obligations.

Overall, total government net position increased by \$5,460,000. Restricted net position increased by \$162,000 and unrestricted net position increased by \$256,000 over 2013 amounts which are mainly due to receipt of funds in 2014 that were not expended in 2014.

The following table shows the change in government-wide net position in 2014.

**Granite County**  
**Changes in Net Position**

|   | 2014               | 2013             | Change      | %     |
|---|--------------------|------------------|-------------|-------|
| <b>Revenues</b>                             |                    |                  |             |       |
| Program Revenues:                           |                    |                  |             |       |
| Charges for Services .....                  | \$832,000          | \$748,000        | \$84,000    | 11%   |
| Operating Grants .....                      | 956,000            | 799,000          | 157,000     | 20%   |
| Capital Grants and Contributions .....      | 4,692,000          | 149,000          | 4,543,000   | -     |
| General Revenues:                           |                    |                  |             |       |
| Property Taxes .....                        | 2,012,000          | 1,902,000        | 110,000     | 6%    |
| Intergovernmental Revenue .....             | 580,000            | 560,000          | 20,000      | 4%    |
| Other General Revenues .....                | 5,000              | 24,000           | (19,000)    | (79)% |
| <b>Total Revenues</b> .....                 | <u>9,077,000</u>   | <u>4,182,000</u> | 4,895,000   | 117%  |
| <b>Expenses</b>                             |                    |                  |             |       |
| General Government .....                    | 1,170,000          | 1,122,000        | 48,000      | 4%    |
| Public Safety .....                         | 825,000            | 864,000          | (39,000)    | (5)%  |
| Public Works .....                          | 1,357,000          | 1,314,000        | 43,000      | 3%    |
| Public Health .....                         | 131,000            | 102,000          | 29,000      | 28%   |
| Culture and Recreation .....                | 6,000              | 3,000            | 3,000       | 100%  |
| Economic Development .....                  | 122,000            | 122,000          | 0           | 0%    |
| Comprehensive Insurance .....               | 93,000             | 94,000           | (1,000)     | (1)%  |
| Interest Expense .....                      | 3,000              | 3,000            | 0           | 0%    |
| <b>Total Expenses</b> .....                 | <u>3,707,000</u>   | <u>3,624,000</u> | 83,000      | 2%    |
| <b>Revenues Over (Under) Expenses</b> ..... | 5,370,000          | 558,000          | 4,812,000   | 862%  |
| Gain (Loss) on the Sale of Assets .....     | 90,000             |                  | 90,000      | -     |
| <b>Change in Net Position</b> .....         | <u>\$5,460,000</u> | <u>\$558,000</u> | \$4,902,000 | 878%  |

The fiscal year 2014 change in net position for government activities decreased compared to 2013 mainly due to the transfer of the Flint Creek Hydroelectric assets to the County and the capital asset activity as noted above.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

### ***Government Funds Overview***

As mentioned previously, the County has these major government funds: the General Fund, Road Fund, and Flint Creek Hydroelectric Project Fund.

1. General Fund - This is the primary operating fund of Granite County's government. It accounts for many of the County's general and administrative, legal, and public safety services.
2. Road Fund - This fund is used to account for the tax collections, federal forest reserve funds, and related expenses for construction, maintenance, or improvement of County roads outside of the incorporated cities and towns.
3. Flint Creek Hydroelectric Project Fund - This fund is used to account for hydroelectric activities of the dam at Georgetown Lake.

**Budgetary Comparisons** - Granite County adopts an annual appropriated budget for all of its funds. Budgetary comparison statements have been provided as a supplemental schedules for the County's major government funds on page 31 and 32 of this report.

In September 2013 the Commissioners appropriated \$1,775,000 for general fund expenditures and transfers in 2014. The budget anticipated \$1,577,000 of revenues and transfers in. Actual revenues received were more than budgeted by \$21,000 and actual expenditures were \$188,000 less than anticipated, mainly due to decreased expenditures for general government and public works.

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

**Capital Assets** - The County's investment in capital assets for its government activities as of June 30, 2014 totals \$7,633,000 (net of accumulated depreciation). The developer of the Flint Creek Hydroelectric Project transferred \$4,558,000 in infrastructure assets to the County. The County received state and federal funds for the purchase of an ambulance for Philipsburg (\$134,000), replacement of Granite County Medical Center generator (\$58,000), and construction of Henderson Creek bridge (\$153,000). The County purchased a grader for \$288,000, an ambulance for \$153,000, and \$80,000 in various other equipment and vehicles. Henderson Creek bridge was replaced at a cost of \$312,000.

The County's capital investment includes all land, buildings, machinery and equipment. The County's asset capitalization threshold is \$5,000. The County was not required to retroactively record infrastructure assets; however, the County reports infrastructure assets as soon as the assets are valued and measured.

See Note 5 on page 25 for additional information on capital assets.

**Long-term Debt** - The County made scheduled payments on the capital lease used to purchase three vehicles for the Sheriff's department in 2013. The only other debt the County has is amounts for compensated absences.

Additional information regarding long-term debt can be found in Note 6 on page 26.

## **FUTURE OF THE COUNTY**

The County will receive a full year of revenue generated from the Flint Creek Hydroelectric plant beginning in fiscal year 2015 and will continue to generate revenue from the facility in future years.

A program to upgrade bridges throughout the County continues. The County received funds from the Treasure State Endowment Program (TSEP) to continue with the upgrades in 2014 and 2015.

Funding from the Forest Reserve Schools and Roads program was cut from \$752,000 in 2014 to approximately \$83,000 for 2015. The County Commissioners have taken this into account for the 2015 budget and beyond.

**REQUESTS FOR INFORMATION** - This financial report is designed to provide a general overview of Granite County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk and Recorder, Blanche McLure, at P.O. Box 925, Philipsburg, MT 59858.

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Granite County  
Philipsburg, Montana

**REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying financial statements of the government activities, each major fund, and the aggregate remaining fund information of Granite County, Philipsburg, 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 U.S. generally accepted accounting principles; 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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## ***Audit Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of Granite County, Philipsburg, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## ***Other Matters***

### *Report on Summarized Comparative Information*

I have previously audited Granite County's 2013 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated March 19, 2014. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 7 and the schedule of revenues, expenditures, and other sources (uses) - budget and actual - general, road, and Flint Creek hydroelectric project funds on pages 31 and 32 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. I have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures applied do not provide me with sufficient evidence to express an opinion or provide any assurance.

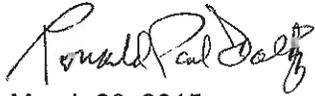
### *Other Supplementary Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Granite County's basic financial statements. The schedule of expenditures of federal awards on pages 34 and 35, is required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 U.S. generally accepted auditing standards.

In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, I have also issued a report dated March 30, 2015 on my consideration of Granite County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Granite County's control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Ronald Paul Dalrymple". The signature is written in a cursive style with a large initial "R".

March 30, 2015

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**GRANITE COUNTY  
PHILIPSBURG, MONTANA**  
**STATEMENT OF NET POSITION**

JUNE 30, 2014

(With comparative totals for the year ended June 30, 2013)

|   | 2014                | 2013               |
|---|---------------------|--------------------|
| <b>ASSETS:</b>                                    |                     |                    |
| Current Assets:                                   |                     |                    |
| Cash and Investments . . . . .                    | \$5,160,329         | \$4,657,194        |
| Property Taxes Receivable . . . . .               | 203,430             | 198,224            |
| Solid Waste Assessment Receivable . . . . .       | 40,040              | 49,157             |
| Accounts Receivable . . . . .                     | 41,873              | 58,958             |
| Due From Other Governments . . . . .              | 45,174              | 70,660             |
| Total Current Assets . . . . .                    | <u>5,490,846</u>    | <u>5,034,193</u>   |
| Capital Assets . . . . .                          | 11,842,268          | 6,707,188          |
| Less Accumulated Depreciation . . . . .           | (4,209,267)         | (4,095,705)        |
| Capital Assets - Net . . . . .                    | <u>7,633,001</u>    | <u>2,611,483</u>   |
| Total Assets . . . . .                            | <u>13,123,847</u>   | <u>7,645,676</u>   |
| <b>LIABILITIES:</b>                               |                     |                    |
| Current Liabilities:                              |                     |                    |
| Current Portion of Capital Lease . . . . .        | 21,863              | 20,851             |
| Current Portion of Compensated Absences . . . . . | 129,145             | 113,261            |
| Total Current Liabilities . . . . .               | <u>151,008</u>      | <u>134,112</u>     |
| Non-current Liabilities:                          |                     |                    |
| Capital Lease . . . . .                           | 22,924              | 44,786             |
| Compensated Absences . . . . .                    | 38,576              | 31,946             |
| Total Non-current Liabilities . . . . .           | <u>61,500</u>       | <u>76,732</u>      |
| Total Liabilities . . . . .                       | <u>212,508</u>      | <u>210,844</u>     |
| <b>DEFERRED INFLOWS:</b>                          |                     |                    |
| Deferred Revenues . . . . .                       | 315,496             | 298,401            |
| Total Liabilities and Deferred Inflows . . . . .  | <u>528,004</u>      | <u>509,245</u>     |
| <b>NET POSITION:</b>                              |                     |                    |
| Net Investment in Capital Assets . . . . .        | 7,588,214           | 2,545,846          |
| Restricted . . . . .                              | 3,164,835           | 3,003,542          |
| Unrestricted . . . . .                            | 1,842,794           | 1,587,043          |
| Total Net Position . . . . .                      | <u>\$12,595,843</u> | <u>\$7,136,431</u> |

See Notes to Financial Statements.

**GRANITE COUNTY**  
**PHILIPSBURG, MONTANA**  
**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2014

(With comparative totals for the year ended June 30, 2013)

|   | ----- Program Revenue ----- |                       |                   |                    | Net<br>(Expenses)<br>Revenue | Net<br>(Expenses)<br>Revenue |
|---|-----------------------------|-----------------------|-------------------|--------------------|------------------------------|------------------------------|
|   | Charges for<br>Expenses     | Operating<br>Services | Capital<br>Grants | Capital<br>Grants  | Government<br>Activities     | 2013                         |
| <b>GOVERNMENT ACTIVITIES:</b>                           |                             |                       |                   |                    |                              |                              |
| General Government .....                                | \$1,170,145                 | \$196,935             | \$65,622          |                    | (\$907,588)                  | (\$844,448)                  |
| Public Safety .....                                     | 825,358                     | 116,440               | 169,940           | \$134,037          | (404,941)                    | (618,199)                    |
| Public Works .....                                      | 1,357,038                   | 477,965               | 689,607           | 4,557,759          | 4,368,293                    | (236,378)                    |
| Public Health .....                                     | 130,608                     | 40,782                | 11,894            |                    | (77,932)                     | (30,902)                     |
| Culture and Recreation .....                            | 6,500                       |                       |                   |                    | (6,500)                      | (3,500)                      |
| Economic Development .....                              | 121,563                     |                       | 18,542            |                    | (103,021)                    | (97,144)                     |
| Comprehensive Insurance .....                           | 92,902                      |                       |                   |                    | (92,902)                     | (93,955)                     |
| Interest Expense .....                                  | 2,669                       |                       |                   |                    | (2,669)                      | (3,295)                      |
| <b>Total .....</b>                                      | <b>\$3,706,783</b>          | <b>\$832,122</b>      | <b>\$955,605</b>  | <b>\$4,691,796</b> | <b>2,772,740</b>             | <b>(1,927,821)</b>           |
| <b>GENERAL REVENUES:</b>                                |                             |                       |                   |                    |                              |                              |
| Property Taxes .....                                    |                             |                       |                   |                    | 2,012,033                    | 1,901,738                    |
| Intergovernmental .....                                 |                             |                       |                   |                    | 579,855                      | 560,443                      |
| Other .....   |                             |                       |                   |                    |                              | 15,916                       |
| Investment Earnings .....                               |                             |                       |                   |                    | 4,790                        | 8,095                        |
| <b>Total General Revenues .....</b>                     |                             |                       |                   |                    | <b>2,596,678</b>             | <b>2,486,192</b>             |
| <b>GENERAL REVENUES OVER (UNDER) NET EXPENSES .....</b> |                             |                       |                   |                    | <b>5,369,418</b>             | <b>558,371</b>               |
| Gain (Loss) on the Sale of Assets .....                 |                             |                       |                   |                    | 89,994                       |                              |
| <b>CHANGE IN NET POSITION .....</b>                     |                             |                       |                   |                    | <b>5,459,412</b>             | <b>558,371</b>               |
| <b>NET POSITION:</b>                                    |                             |                       |                   |                    |                              |                              |
| Beginning of the Year .....                             |                             |                       |                   |                    | 7,136,431                    | 6,578,060                    |
| End of the Year .....                                   |                             |                       |                   |                    | <b>\$12,595,843</b>          | <b>\$7,136,431</b>           |

See Notes to Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**GOVERNMENT FUNDS**

**BALANCE SHEET**

JUNE 30, 2014

|  | ----- Major Funds ----- |                    |   |                              |                              |
|--|-------------------------|--------------------|---|------------------------------|------------------------------|
|  | General<br>Fund         | Road<br>Fund       | Flint Creek<br>Hydroelectric<br>Project<br>Fund | Other<br>Government<br>Funds | Total<br>Government<br>Funds |
| <b>ASSETS:</b>   |                         |                    |   |                              |                              |
| Cash and Investments . . . . .                               | \$1,576,330             | \$998,474          | \$241,366                                       | \$2,344,159                  | \$5,160,329                  |
| Property Taxes Receivable . . . . .                          | 82,847                  | 30,705             |   | 89,878                       | 203,430                      |
| Solid Waste<br>Assessment Receivable . . . . .               |                         |                    |   | 40,040                       | 40,040                       |
| Other Receivables . . . . .                                  | 30,172                  |                    |   | 11,701                       | 41,873                       |
| Due From Other Governments . . . . .                         | 17,810                  |                    |   | 27,364                       | 45,174                       |
| Due From (To) Other Funds . . . . .                          | (33,129)                |                    | 22,037  | 11,092                       |                              |
| <b>Total Assets . . . . .</b>                                | <b>\$1,674,030</b>      | <b>\$1,029,179</b> | <b>\$263,403</b>                                | <b>\$2,524,234</b>           | <b>\$5,490,846</b>           |
| <b>DEFERRED INFLOWS:</b>                                     |                         |                    |   |                              |                              |
| Deferred Revenues . . . . .                                  | \$309,146               |                    |   | \$46,390                     | \$355,536                    |
| Deferred Property<br>Tax Revenues . . . . .                  | 82,847                  | \$30,705           |   | 89,878                       | 203,430                      |
| <b>Total Deferred Inflows . . . . .</b>                      | <b>391,993</b>          | <b>30,705</b>      |   | <b>136,268</b>               | <b>558,966</b>               |
| <b>FUND BALANCE:</b>   |                         |                    |   |                              |                              |
| Committed . . . . .  |                         |                    | \$263,403                                       |                              | 263,403                      |
| Restricted . . . . .   |                         | 998,474            |   | 2,005,738                    | 3,004,212                    |
| Assigned . . . . .   |                         |                    |   | 382,228                      | 382,228                      |
| Unassigned . . . . .   | 1,282,037               |                    |   |                              | 1,282,037                    |
| <b>Total Fund Balance . . . . .</b>                          | <b>1,282,037</b>        | <b>998,474</b>     | <b>263,403</b>                                  | <b>2,387,966</b>             | <b>4,931,880</b>             |
| <b>Total Deferred Inflows and<br/>Fund Balance . . . . .</b> | <b>\$1,674,030</b>      | <b>\$1,029,179</b> | <b>\$263,403</b>                                | <b>\$2,524,234</b>           | <b>\$5,490,846</b>           |

See Notes to Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

JUNE 30, 2014

**RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

|  |                                |
|--|--------------------------------|
| Fund balance as reported above .....   | \$4,931,880                    |
| Add assets not reported in the government funds statements:  |                                |
| Capital assets .....   | \$11,842,268                   |
| Less accumulated depreciation .....  | <u>(\$4,209,267)</u> 7,633,001 |
| Less compensated absences liabilities not reported in the<br>government funds statements .....                     | (167,721)                      |
| Less capital lease liability not report in the government funds<br>statements .....                                | (44,787)                       |
| Deferred property tax revenue recognized as revenue in the<br>government-wide statements .....                     | 203,430                        |
| Deferred solid waste charges for services revenue recognized<br>as revenue in the government-wide statements ..... | <u>40,040</u>                  |
| Net position of government activities reported in the<br>government-wide statements .....                          | <u>\$12,595,843</u>            |

See Notes to Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENT FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

| ----- Major Funds -----  |                    |                  |   |                              |                    |
|--|--------------------|------------------|---|------------------------------|--------------------|
|  | General<br>Fund    | Road<br>Fund     | Flint Creek<br>Hydroelectric<br>Project<br>Fund | Other<br>Government<br>Funds | Total              |
| <b>REVENUES:</b>   |                    |                  |   |                              |                    |
| Property Taxes .....   | \$796,271          | \$296,050        |   | \$914,506                    | \$2,006,827        |
| Intergovernmental .....  | 455,117            | 539,022          |   | 682,104                      | 1,676,243          |
| Charges for Services .....   | 219,337            | 1,375            | \$61,338  | 442,063                      | 724,113            |
| Fines and Forfeitures .....  | 23,138             |                  |   | 2,006                        | 25,144             |
| Interest Earnings .....  | 3,442              | 833              | 67  | 448                          | 4,790              |
| Other .....  | 36,273             | 19,193           | 2,381   | 27,389                       | 85,236             |
| Capital Contributions .....  |                    |                  | 4,557,759                                       |                              | 4,557,759          |
| <b>Total Revenues</b> .....  | <b>1,533,578</b>   | <b>856,473</b>   | <b>4,621,545</b>                                | <b>2,068,516</b>             | <b>9,080,112</b>   |
| <b>EXPENDITURES:</b>   |                    |                  |   |                              |                    |
| General Government .....   | 926,517            |                  |   | 161,789                      | 1,088,306          |
| Public Safety .....  | 615,034            |                  |   | 123,452                      | 738,486            |
| Public Works .....   | 5,755              | 673,727          | 43,041  | 451,422                      | 1,173,945          |
| Public Health .....  | 5,644              |                  |   | 124,964                      | 130,608            |
| Culture and Recreation .....                                       |                    |                  |   | 6,500                        | 6,500              |
| Economic Development .....   | 3,768              |                  |   | 112,314                      | 116,082            |
| Comprehensive Insurance .....                                      |                    |                  |   | 92,902                       | 92,902             |
| Capital Outlay .....   |                    | 360,849          | 4,565,082                                       | 464,957                      | 5,390,888          |
| Debt Service .....   | 23,519             |                  |   |                              | 23,519             |
| <b>Total Expenditures</b> .....                                    | <b>1,580,237</b>   | <b>1,034,576</b> | <b>4,608,123</b>                                | <b>1,538,300</b>             | <b>8,761,236</b>   |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> ..... | <b>(46,659)</b>    | <b>(178,103)</b> | <b>13,422</b>                                   | <b>530,216</b>               | <b>318,876</b>     |
| <b>Other Sources (Uses):</b>                                       |                    |                  |   |                              |                    |
| Gain (Loss) on Sale of Assets ...                                  |                    | 124,593          |   |                              | 124,593            |
| Transfers In (Out) .....   | 290,557            | 51,586           |   | (342,143)                    |                    |
| <b>Change in Fund Balance</b> .....                                | <b>243,898</b>     | <b>(1,924)</b>   | <b>13,422</b>                                   | <b>188,073</b>               | <b>443,469</b>     |
| <b>Fund Balance:</b>   |                    |                  |   |                              |                    |
| Beginning of the Year .....  | 1,038,139          | 1,000,398        | 249,981   | 2,199,893                    | 4,488,411          |
| End of the Year .....  | <b>\$1,282,037</b> | <b>\$998,474</b> | <b>\$263,403</b>                                | <b>\$2,387,966</b>           | <b>\$4,931,880</b> |

See Notes to Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

---

|  |                    |
|--|--------------------|
| Change in fund balances as reported in the government funds statement . . . . .  | \$443,469          |
| Increase (Decrease) in property taxes receivable not reflected in revenue in the government funds statement . . . . .                | 5,206              |
| Increase (Decrease) in solid waste receivable not reflected in revenue in the government funds statement . . . . .                   | (9,117)            |
| (Increase) Decrease in compensated absences not reflected as a reduction in expenditures in the government funds statement . . . . . | (22,514)           |
| Amounts reported as expenditures in the government funds statement not included as expenses in the statement of activities:          |                    |
| Capital outlays . . . . .  | 5,390,888          |
| Principal payments on capital lease . . . . .  | 20,850             |
| Depreciation expense reported on the statement of activities not included in the government funds statement . . . . .                | (334,771)          |
| Net book value of capital assets disposed of not included in the government funds statement . . . . .                                | <u>(34,599)</u>    |
| Change in net position of government activities on the statement of activities . . .   | <u>\$5,459,412</u> |

See Notes to Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**STATEMENT OF FIDUCIARY NET POSITION  
AND  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

|   | External<br>Investment<br>Pool | Individual<br>Investment<br>Accounts | Agency<br>Funds  |
|---|--------------------------------|--------------------------------------|------------------|
| <b>FIDUCIARY NET POSITION</b>   |                                |                                      |                  |
| <b>ASSETS:</b>  |                                |                                      |                  |
| Cash and Investments .....  | \$2,186,912                    | \$124,438                            | \$1,212,307      |
| Property Taxes Receivable .....   |                                |                                      | 108,489          |
| Other Receivable .....  |                                |                                      | 6,013            |
| <b>Total Assets .....</b>   | <b>2,186,912</b>               | <b>124,438</b>                       | <b>1,326,809</b> |
| <b>LIABILITIES:</b>   |                                |                                      |                  |
| Due to Other Governments .....  |                                |                                      | 1,326,809        |
| <b>NET POSITION:</b>  |                                |                                      |                  |
| Held in Trust for Pool Participants and<br>Individual Investment Accounts ..... | \$2,186,912                    | \$124,438                            | \$0              |

**CHANGES IN FIDUCIARY NET POSITION**

|   |                    |                  |  |
|---|--------------------|------------------|--|
| <b>ADDITIONS TO INVESTMENTS:</b>                  |                    |                  |  |
| Contributions and Investment Earnings .....       | \$10,657,308       | \$53,471         |  |
| <b>DISTRIBUTIONS FROM INVESTMENTS .....</b>       | <b>10,493,001</b>  | <b>684,353</b>   |  |
| <b>CHANGE IN NET POSITION HELD IN TRUST .....</b> | <b>164,307</b>     | <b>(630,882)</b> |  |
| <b>NET POSITION:</b>                              |                    |                  |  |
| Beginning of the Year .....                       | 2,022,605          | 755,320          |  |
| <b>End of the Year .....</b>                      | <b>\$2,186,912</b> | <b>\$124,438</b> |  |

See Notes to the Financial Statements.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2014

|   | <u>Note</u> | <u>Page</u> |
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| Reporting Entity .....                              | 1A          | 20          |
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| Inventories .....                                   | 1E          | 23          |
| Capital Assets .....                                | 1F          | 23          |
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| Cash and Investments .....                          | 2           | 24          |
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| Inter-fund Transfers and Balances .....             | 4           | 25          |
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| Long-Term Debt .....                                | 6           | 26          |
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Granite County 2014 Notes to Financial Statements (continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

Granite County is governed by an elected three-member Board of County Commissioners and is considered to be an independent government. The accompanying financial statements include the activities of the County controlled by the County Commissioners. Granite County has no component units.

B. Basis of Presentation and Basis of Accounting

**Government-wide Financial Statements** - The statement of net position and the statement of activities show information about the overall financial position and activities of the County with the exception of the funds held by the County in a trustee capacity as an agent for individuals, private organizations, or other governments. The statement of net position reflects wording and categories as required by Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the County are generally financed through property taxes and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's government 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. Program revenues include fees for services and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues. The County generally applies restricted resources to expenses incurred before using unrestricted resources when both components of restricted and unrestricted net position are available.

**Fund Financial Statements** - These statements provide information about the County's funds, including a separate statements for the County's fiduciary funds. The emphasis of fund financial statements is on major government funds. Each major fund is displayed in a separate column in the government funds statements. All of the remaining funds are aggregated and reported in a single column as other government funds.

Government Funds

These funds (except the fiduciary funds) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

## Granite County 2014 Notes to Financial Statements (continued)

State and other government revenues applicable to the current fiscal year and collected soon after year-end (generally within 60 days) are recognized as revenue. However, most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax revenues are recorded as deferred inflows of resources in the government funds for these receivables. This change from previous years, when deferred property taxes were reported as a liability, results from the County's implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, so property taxes are recognized when collected in the government funds. The fiduciary funds use total resources focus and accrual basis of accounting.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in government funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the County's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the County applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

U.S. generally accepted accounting principles (GAAP) requires that the general fund be reported as a major fund and that all other government funds whose assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% or more of the total for all government funds or 5% of the total amounts for combined government funds and proprietary funds also be reported as major funds. GAAP also allows governments to report funds that do not exceed this 10% threshold if the government officials believe it is important to the users of the financial statements. The County reports the following major government funds:

General Fund - This is the County's primary operating fund which accounts for all financial resources of the County except those required to be accounted for in other funds. The PILT (Payment in lieu of taxes) fund is combined with the County's general fund for reporting purposes.

Road Fund - This fund is used to account for the tax collections, federal forest reserve funds, and related expenses for construction, maintenance, or improvement of County roads outside of incorporated cities and towns.

Flint Creek Hydroelectric Project Fund - This fund is set up to account for the hydroelectric activities of the dam at Georgetown Lake.

Fiduciary Funds - Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting and consist of the following:

External Investment Pool - This pool consists of funds deposited in the County's investment pool which belong to other participating local governments and are reported separately from the County's invested funds.

## Granite County 2014 Notes to Financial Statements (continued)

Individual Investment Accounts - These accounts are funds deposited with the County which are invested as directed by local governments which own the funds. They are reported separately from the investment pool.

Agency Funds - These funds consist of cash held for other governments that do not participate in the County's investment pool and property taxes receivable belonging to other governments. Cash amounts consist primarily of property tax collections and other funds collected by the County on behalf of other governments that are remitted to the other governments soon after the end of the month. The County manages all of the property taxes levied in the County.

### C. Cash and Investments

Except for certain specific bank deposits and investments held separately on behalf of certain school and irrigation districts, available cash resources of the individual funds are combined to form an investment pool, which is managed by the County Treasurer. Investments of pooled cash, which are authorized by state law, consist primarily of demand deposits, non-negotiable certificates of deposit, bank repurchase agreements, government agency securities and notes, and deposits with the Montana Short-Term Investment Pool (STIP).

Legally separate entities that are not part of the County reporting entity are permitted to participate in the investment pool, and those entities' portion of the investment pool is reported in an investment trust fund. The investment pool is managed in accordance with the County's stated investment policy.

The County reports most investments at fair value. Certain minor investments and bank deposits are reported at cost or amortized cost which approximates fair value. Investment income includes realized gains and losses and the change in fair value of investments. Investment income on pooled investments is allocated to participating external entities on the basis of month-end balances. The County's share of pooled investment income not related to specific investments is allocated to the general fund.

The County issues warrants in payment of its obligations. When warrants are presented to the County Treasurer, the County issues a check to pay the warrants.

### D. Property Taxes

Property tax levies are approved on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. Real property (and certain attached personal property) taxes are billed in October and are due in equal amounts on November 30 and the following May 31. After those dates they become delinquent (and a lien placed upon the property). After three years the County may exercise the lien and take title to the property. Personal property taxes (other than those billed with real estate) are generally billed in May or June and are normally due 30 days after billing.

State law limits the number of mills the County can levy to the amount of property tax dollars levied in the prior fiscal year plus amounts related to the taxable value for the annexation of real property, new construction and improvements, debt service, and certain other exceptions.

Granite County 2014 Notes to Financial Statements (continued)

Additionally, the mill levy limits can be exceeded for one year in the event that an emergency levy is required.

Taxable valuations (which are a small percentage of assessed valuations), mill values, and mill levies for November 2013 property tax billings were as follows:

|  | Taxable<br>Valuation | Value of<br>Mill | Mills<br>Levied |
|--|----------------------|------------------|-----------------|
| County-wide levies (without Road levy) . . . . .     | \$10,756,597         | \$10,756         | 134.34          |
| Unincorporated areas only (with Road levy) . . . . . | \$9,293,055          | \$9,293          | 166.29          |

E. Inventories

Inventories are considered to be immaterial and are not reported.

F. Capital Assets

Capital assets are carried at cost or estimated cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized. The County has elected to not report infrastructure retroactively. Depreciation on assets is provided over their estimated useful lives on the straight-line method. A full year of depreciation is taken in the year following acquisition.

The useful lives of these assets have been estimated as follows:

|   |               |
|---|---------------|
| Buildings . . . . .                                       | 20 - 40 years |
| Infrastructure (including hydroelectric assets) . . . . . | 40 - 50 years |
| Other Improvements . . . . .                              | 15 - 50 years |
| Machinery and Equipment . . . . .                         | 5 - 10 years  |

G. Compensated Absences

County employees earn vacation and sick leave as required by State law. Up to two years of accumulated vacation leave and 25% of accumulated sick leave is payable to the employee on termination. The amounts reported as compensated absences payable is based on the termination benefits.

H. Comparative Totals

The government-wide financial statements include prior-year comparative totals and are not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, these totals should be read in conjunction with the government-wide financial statements for the year ended June 30, 2013 from which they have been derived. Certain 2013 amounts have been restated to comply with 2014 classifications.

Granite County 2014 Notes to Financial Statements (continued)

**2. CASH AND INVESTMENTS** - A summary of cash and investments at June 30, 2014 was as follows:

|   |             |
|---|-------------|
| Cash on Hand .....                            | \$725       |
| Cash and Deposits with Banks .....            | 662,950     |
| Certificates of Deposits .....                | 540,243     |
| U.S. Government Bonds .....                   | 1,166,501   |
| State Short-term Investment Pool (STIP) ..... | 6,313,567   |
|   | <hr/>       |
| Total .....                                   | \$8,683,986 |

The ownership of cash and investments at June 30, 2014 was as follows:

|                                      |             |
|--------------------------------------|-------------|
| County Government Funds .....        | \$5,160,329 |
| Fiduciary Funds:                     |             |
| External Investment Pool .....       | 2,186,912   |
| Individual Investment Accounts ..... | 124,438     |
| Non-pooled Agency Funds .....        | 1,212,307   |
|                                      | <hr/>       |
| Total Cash at County .....           | \$8,683,986 |

The Montana Short-Term Investment Pool (STIP) is managed by a State agency, the Montana Board of Investments, and invests in short-term, highly liquid investments. Amounts invested may be redeemed at any date at the carrying value on that date. The STIP unit value is fixed at \$1 for both purchases and redemptions. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. Income is distributed on the first calendar day of each month and is usually automatically reinvested in additional units.

Audited financial statements for the State of Montana's Board of Investments (which includes STIP) are available at 555 Fuller Avenue, Helena, Montana 59601. STIP is not registered with the Securities and Exchange Commission (SEC) but it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (similar to a money-market fund).

Certificates of deposit are recorded at fair value which approximates cost, and are generally for terms of one year or less. The U.S. treasury bills are recorded at fair market value of \$1,166,501 as of June 30, 2014. The cost basis is \$1,164,059.

All of the cash and investments except STIP, cash with fiscal agents, and cash-on-hand is either insured or collateralized at 100%. State Law (MCA 7-6-207) requires that 50% of funds held must be insured or collateralized.

Granite County 2014 Notes to Financial Statements (continued)

**3. PROPERTY TAXES RECEIVABLE** - Changes in property taxes receivable were as follows:

|                         |                  |
|-------------------------|------------------|
| Balance - June 30, 2013 | \$198,222        |
| Taxes Levied            | 1,982,971        |
| Collections             | (1,991,827)      |
| Other Changes           | 14,064           |
| Balance - June 30, 2014 | <u>\$203,430</u> |

Other changes include rebates and tax abatements due to revaluations of taxable values.

**4. INTER-FUND TRANSFERS AND BALANCES** - Transfers between funds were as follows:

| Transfers From: | Transfers To:         | Amount           |
|-----------------|-----------------------|------------------|
| General Fund    | Non-major funds       | \$7,121          |
| Non-major Funds | General Fund          | 297,678          |
|                 | Road Fund             | 51,586           |
|                 | Other non-major Funds | 411,130          |
| Total Transfers |                       | <u>\$767,515</u> |

The County pays health insurance and other fringe benefits from its operating funds and transfers monies from the comprehensive insurance fund to reimburse the operating funds. The County accounts for the receipt of Federal Payments-in-lieu-of-taxes (PILT) revenues in a single fund and transfers out to various funds.

The County general fund owes \$22,037 to the Flint Creek hydroelectric project fund and \$11,092 to the capital projects fund.

**5. CAPITAL ASSETS** - Changes in general government capital assets were as follows:

|                          | Balance<br>June 30,<br>2013 | Additions          | Deletions          | Other<br>Changes | Balance<br>June 30,<br>2014 |
|--------------------------|-----------------------------|--------------------|--------------------|------------------|-----------------------------|
| Cost:                    |                             |                    |                    |                  |                             |
| Land                     | \$132,976                   |                    |                    |                  | \$132,976                   |
| Infrastructure           | 791,698                     | \$4,557,759        |                    |                  | 5,349,457                   |
| Improvements             | 518,427                     |                    |                    |                  | 518,427                     |
| Buildings                | 2,091,654                   |                    |                    |                  | 2,091,654                   |
| Machinery and Equipment  | 3,172,433                   | 520,851            | (\$255,808)        |                  | 3,437,476                   |
| Construction-in-Progress |                             | 312,278            |                    |                  | 312,278                     |
| Total                    | <u>\$6,707,188</u>          | <u>\$5,390,888</u> | <u>(\$255,808)</u> |                  | <u>\$11,842,268</u>         |

Granite County 2014 Notes to Financial Statements (continued)

|                            | Balance<br>June 30,<br>2013 | Additions      | Deletions        | Other<br>Changes | Balance<br>June 30,<br>2014 |
|----------------------------|-----------------------------|----------------|------------------|------------------|-----------------------------|
| Accumulated Depreciation:  |                             |                |                  |                  |                             |
| Infrastructure .....       | \$56,118                    | \$16,333       |                  |                  | \$72,451                    |
| Improvements .....         | 191,640                     | 13,489         |                  |                  | 205,129                     |
| Buildings .....            | 1,391,639                   | 58,476         |                  |                  | 1,450,115                   |
| Machinery and Equipment .. | 2,456,308                   | 246,473        | (\$221,209)      |                  | 2,481,572                   |
| <b>Total .....</b>         | <b>4,095,705</b>            | <b>334,771</b> | <b>(221,209)</b> |                  | <b>4,209,267</b>            |
| Capital Assets - Net ..... | \$2,611,483                 | \$5,056,117    | (\$34,599)       | \$0              | \$7,633,001                 |

Depreciation expense was charged to functions as follows:

|                            |                  |
|----------------------------|------------------|
| General Government .....   | \$59,325         |
| Public Safety .....        | 86,872           |
| Public Works .....         | 183,093          |
| Economic Development ..... | 5,481            |
| <b>Total .....</b>         | <b>\$334,771</b> |

The County leases the land, building, and equipment to the Granite County Hospital District for \$1 per year under a five year renewable lease.

**6. LONG TERM DEBT** - Changes in long-term debt were as follows:

|                                   | Balance<br>June 30,<br>2013 | Increase        | Decrease          | Balance<br>June 30,<br>2014 | Amount<br>due in<br>2015 |
|-----------------------------------|-----------------------------|-----------------|-------------------|-----------------------------|--------------------------|
| Compensated Absences .....        | \$145,207                   | \$22,514        |                   | \$167,721                   | \$129,145                |
| Capital Lease .....               | 65,637                      |                 | (\$20,850)        | 44,787                      | 21,863                   |
| <b>Total Long Term Debt .....</b> | <b>\$210,844</b>            | <b>\$22,514</b> | <b>(\$20,850)</b> | <b>\$212,508</b>            | <b>\$151,008</b>         |

Capital Lease - The County obtained a capital lease for three vehicles for the sheriff's department. The \$85,861 lease was issued in August 2012 and has 48 monthly payments of \$1,960 (\$23,520 annually) with the final payment due July 31, 2016. It has a purchase option of \$1 at the end of the lease and carries a 4.75% interest rate.

Compensated Absences - Accumulated vacation payable is classified as compensated absences due within one year. Accrued sick leave payable is classified as non-current. The County has established a compensated absence fund to pay related liabilities.

Granite County 2014 Notes to Financial Statements (continued)

**7. RETIREE HEALTH CARE COSTS**

Federal law (COBRA) allows terminated employees to remain on the County's health insurance plan for up to 18 months after termination if they pay the monthly premium and State law allows retirees to remain on the plan to age 65 if they pay the monthly premium.

The County has 37 employees with an average age of 53. Two employees have retired and participated in the County's health insurance plan for a very short period of time in the last 10 years. The County's insurance carrier (the Montana Association of Counties Health Care Trust) does not calculate an age-rated premium for individual employees or for individual participating governments. Consequently, the County does not believe that the actuarial liability for future retiree health care costs (if any) would be material to the County's financial position and has not recorded any such liability.

**8. GOVERNMENT-WIDE RESTRICTED NET POSITION**

Restricted Net Position consists of resources that were received by the County with an understanding between the County and the provider that the funds would be used for specific purposes. The debt service fund and all special revenue funds, except PILT and Flint Creek Hydroelectric Project funds, are considered restricted.

**9. GOVERNMENT FUNDS BALANCE REPORTING**

Government Accounting Standards Board (GASB) Statement No. 54 requires classifying fund balances into specifically defined classifications. There were no non-spendable funds at June 30, 2014. Committed and assigned funds must be so designated by the County's Board of Commissioners and/or assigned by the Clerk and Recorder. The County spends restricted amounts first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the County first spends committed, then assigned, and lastly unassigned funds. The County had \$716,568 restricted by grantors or contributors and \$2,287,644 restricted by enabling legislation.

**Committed** fund balances consist of the following:

|   |                  |
|---|------------------|
| Flint Creek Hydroelectric Project ..... | <u>\$263,403</u> |
|---|------------------|

**Restricted** fund balances consist of the following:

|                                      |                    |
|--------------------------------------|--------------------|
| General Government .....             | \$243,921          |
| Public Safety .....                  | 285,927            |
| Public Works .....                   | 2,072,793          |
| Public Health .....                  | 219,436            |
| Social and Economic .....            | 80,694             |
| Culture and Recreation .....         | 13,823             |
| Capital Outlay .....                 | 15,000             |
| Debt Service .....                   | <u>72,618</u>      |
| Total Restricted Fund Balances ..... | <u>\$3,004,212</u> |

Granite County 2014 Notes to Financial Statements (continued)

**Assigned** fund balances consist of the following:

|                        |                  |
|------------------------|------------------|
| Capital Projects ..... | <u>\$382,228</u> |
|------------------------|------------------|

**Unassigned** fund balances consist of the following:

|                    |                    |
|--------------------|--------------------|
| General Fund ..... | <u>\$1,282,037</u> |
|--------------------|--------------------|

|   |                    |
|---|--------------------|
| <b>Total fund balances as shown on the<br/>Balance Sheet - Government Funds</b> ..... | <u>\$4,931,880</u> |
|---|--------------------|

For financial statement reporting purpose, the County has combined the PILT (payment-in-lieu-of-taxes) fund with the general fund as shown in the following table:

|  | General<br>Fund  | PILT<br>Fund     | Combined           |
|--|------------------|------------------|--------------------|
| Assets .....   | \$816,490        | \$857,540        | \$1,674,030        |
| Liabilities and Deferred Inflows .....                 | 139,755          | 252,238          | 391,993            |
| Fund Balances .....                                    | <u>\$676,735</u> | <u>\$605,302</u> | <u>\$1,282,037</u> |
| Revenues .....   | \$1,300,608      | \$232,970        | \$1,533,578        |
| Expenses .....   | <u>1,580,237</u> |                  | <u>1,580,237</u>   |
| Excess (Deficiency) of Revenues<br>Over Expenses ..... | (279,629)        | 232,970          | (46,659)           |
| Other Sources (Uses) .....                             | <u>290,557</u>   |                  | <u>290,557</u>     |
| Change in Fund Balances .....                          | 10,928           | 232,970          | 243,898            |
| Fund Balances:   |                  |                  |                    |
| Beginning .....  | <u>665,807</u>   | <u>372,332</u>   | <u>1,038,139</u>   |
| Ending .....   | <u>\$676,735</u> | <u>\$605,302</u> | <u>\$1,282,037</u> |

**10. RETIREMENT PLANS**

The County participates in three statewide mandatory cost-sharing, multiple-employer, defined benefit retirement plans which cover all employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, death, and disability benefits to plan members and beneficiaries. Sheriff employees are covered by the Montana Sheriffs' Retirement System (MSRS), the County Superintendent of Schools is covered by the Montana Teachers Retirement System (MTRS), and other County employees are covered by the Montana Public Employees' Retirement System (MPERS).

Granite County 2014 Notes to Financial Statements (continued)

Contribution rates for the three plans are required and determined by State law.

There were no changes in contribution rates for MSRS for employers, employees, or the State.

The contribution rates for MTRS were increased in 2014 by 1% for employers from 7.47% to 8.47% and for employees from 7.15% to 8.15%. There were no changes in the State contribution rate.

The contribution rates for MPERS were increased in 2014 by 1% for employers from 7.07% to 8.07% and for employees hired before July 1, 2011 from 6.9% to 7.9%. There were no changes in the contribution rates for the State and employees hired after July 1, 2011.

Contribution rates, expressed as a percentage of covered payroll, were as follows:

|   | Employer | Employee | State | Total  |
|---|----------|----------|-------|--------|
| MSRS .....                                | 10.115%  | 9.245%   | -     | 19.36% |
| MPERS (members hired before 7/1/2011) ..  | 8.07%    | 7.90%    | 0.10% | 16.07% |
| MPERS (members hired after 7/1/2011) .... | 8.07%    | 7.90%    | 0.10% | 16.07% |
| MTRS .....                                | 8.47%    | 8.15%    | 2.49% | 19.11% |

The amounts contributed to MSRS, MPERS, and MTRS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by both the County and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

|             | 2012      | 2013      | 2014      |
|-------------|-----------|-----------|-----------|
| MSRS .....  | \$38,926  | \$40,051  | \$39,690  |
| MPERS ..... | 142,596   | 146,344   | 174,515   |
| MTRS .....  | 2,924     | 1,793     | 398       |
| Total ..... | \$184,446 | \$188,188 | \$214,603 |

The State's contributions to the plans in 2014 were approximately \$1,085 for MPERS and \$101 for MTRS. The plans issue publicly available financial reports that includes financial statements and supplementary information. Those reports may be obtained from the following:

Montana Teachers Retirement System  
P.O. Box 200139  
1500 East Sixth Avenue  
Helena, Montana 59620-139  
Telephone (406) 444-3134

Montana Public Employees Retirement System  
P.O. Box 200131  
100 North Park, Suite 200  
Helena, Montana 59620-0131  
Telephone (406) 444-3154

**11. RISK MANAGEMENT**

The County faces a number of risks of loss including (1) loss or damage to property, (2) general liability,(3) workers' compensation, and (4) employee medical insurance. There were no significant changes in how the County covered its risks in 2014. The County manages these risks through a combination of commercial insurance, participation in a risk pool, and self-insurance.

The County covers its liability and general insurance coverage through the Montana Association of Counties Joint Powers Insurances Authority Pool. Insurance coverage is used to manage risks of loss for all activities except workers' compensation claims.

The County covers its workers' compensation risk through participation in the Montana Association of Counties Workers' Compensation Joint Powers Authority (the Authority). The Authority is supervised by a Board of Trustees, which is comprised of seven persons, who are elected by the participant counties at the annual meeting. The Authority is liable for the payment of benefits to employees of member counties under the Workers' Compensation and Occupational Disease Act. The Authority charges the County an annual workers' compensation premium to cover anticipated workers' claims. Audited summary financial information is available for the Authority from Montana Association of Counties (MACo).

**12. SUBSEQUENT EVENTS**

The Forest Service Secure Rural Schools (SRS) program expired on September 30, 2014 and was not reauthorized by Congress. Because the SRS Act has not been reauthorized the 1908 Act requiring 25 percent payments will govern the distribution of payments to States. Per 16 U.S.C. 500 the 1908 Act payments can be allocated " ...as the State or Territorial legislature may prescribe for the benefit of the public schools and public roads of the county or counties in which such national forest is situated..."

The end result of Congress not funding the Forest Service Schools and Roads Program is a reduction of funding to Granite County from \$752,000 in 2014 to approximately \$83,000 in 2015.

Efforts were still being made to restore funding but as of March 2015 no restoration has been made.

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**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**SCHEDULE OF REVENUE, EXPENDITURES, AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL**

**GENERAL FUND AND ROAD FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

|  | General Fund                 |                  | Road Fund                    |                  |
|--|------------------------------|------------------|------------------------------|------------------|
|  | Original and<br>Final Budget | Actual           | Original and<br>Final Budget | Actual           |
| <b>REVENUES:</b>   |                              |                  |                              |                  |
| Property Taxes .....   | \$795,083                    | \$796,271        | \$296,911                    | \$296,050        |
| Intergovernmental .....  | 216,144                      | 222,147          | 70,856                       | 539,022          |
| Charges for Services .....   | 214,693                      | 219,337          |                              | 1,375            |
| Fines and Forfeitures .....  | 26,000                       | 23,138           |                              |                  |
| Sale of Assets .....   |                              |                  |                              |                  |
| Interest Earnings .....  | 5,000                        | 3,442            | 1,300                        | 833              |
| Other .....  | 7,000                        | 36,273           | 20,000                       | 19,193           |
| <b>Total Revenues</b> .....  | <b>1,263,920</b>             | <b>1,300,608</b> | <b>389,067</b>               | <b>856,473</b>   |
| <b>EXPENDITURES:</b>   |                              |                  |                              |                  |
| General Government .....   | 1,018,124                    | 926,517          |                              |                  |
| Public Safety .....  | 646,905                      | 615,034          |                              |                  |
| Public Works .....   | 8,600                        | 5,755            | 834,843                      | 673,727          |
| Public Health .....  | 6,000                        | 5,644            |                              |                  |
| Culture and Recreation .....   |                              | 3,768            |                              |                  |
| Economic Development .....   | 10,000                       |                  |                              |                  |
| Miscellaneous .....  |                              |                  |                              |                  |
| Capital Outlay .....   | 55,000                       |                  | 350,000                      | 360,849          |
| Debt Service .....   | 23,519                       | 23,519           |                              |                  |
| <b>Total Expenditures</b> .....  | <b>1,768,148</b>             | <b>1,580,237</b> | <b>1,184,843</b>             | <b>1,034,576</b> |
| <b>Excess (Deficiency) of Revenues over<br/>Expenditures</b> .....                       | <b>(504,228)</b>             | <b>(279,629)</b> | <b>(795,776)</b>             | <b>(178,103)</b> |
| <b>Other Sources and Uses:</b>   |                              |                  |                              |                  |
| Transfers In .....   | 312,900                      | 297,678          | 91,128                       | 51,586           |
| Transfers (Out) .....  | (7,125)                      | (7,121)          |                              |                  |
| Gain (Loss) on Sale of Capital Assets .....  | 500                          |                  |                              | 124,593          |
| <b>Excess (Deficiency) of Revenues over<br/>Expenditures and Other Sources (Uses)</b> .. | <b>(\$197,953)</b>           | <b>\$10,928</b>  | <b>(\$704,648)</b>           | <b>(\$1,924)</b> |

See Notes to the Budget and Actual Schedule.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**SCHEDULE OF REVENUE, EXPENDITURES, AND OTHER SOURCES (USES)  
BUDGET AND ACTUAL**

**FLINT CREEK HYDROELECTRIC PROJECT FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

|   | Flint Creek Hydroelectric Project Fund |                    |                  |
|---|--|--------------------|------------------|
|   | Original<br>Budget                     | Final<br>Budget    | Actual           |
| <b>REVENUES:</b>  |  |                    |                  |
| Property Taxes .....  |  |                    |                  |
| Intergovernmental .....   |  |                    |                  |
| Charges for Services .....  | \$20,000                               | \$20,000           | \$61,338         |
| Fines and Forfeitures .....   |  |                    |                  |
| Sale of Assets .....  |  |                    |                  |
| Interest Earnings .....   |  |                    | 67               |
| Other .....   | 1,500                                  | 1,500              | 2,381            |
| Capital Grants and Contributions .....  |  | 4,558,000          | 4,557,759        |
| <b>Total Revenues</b> .....   | <b>21,500</b>                          | <b>4,579,500</b>   | <b>4,621,545</b> |
| <b>EXPENDITURES:</b>  |  |                    |                  |
| General Government .....  |  |                    |                  |
| Public Safety .....   |  |                    |                  |
| Public Works .....  | 149,180                                | 149,180            | 43,041           |
| Public Health .....   |  |                    |                  |
| Culture and Recreation .....  |  |                    |                  |
| Economic Development .....  |  |                    |                  |
| Miscellaneous .....   |  |                    |                  |
| Capital Outlay .....  | 100,264                                | 4,658,264          | 4,565,082        |
| <b>Total Expenditures</b> .....   | <b>249,444</b>                         | <b>4,807,444</b>   | <b>4,608,123</b> |
| <b>Excess (Deficiency) of Revenues over Expenditures</b> .....                              | <b>(227,944)</b>                       | <b>(227,944)</b>   | <b>13,422</b>    |
| <b>Other Sources and Uses:</b>  |  |                    |                  |
| Transfers In (Out) .....  |  |                    |                  |
| Transfers (Out) .....   |  |                    |                  |
| <b>Excess (Deficiency) of Revenues over Expenditures<br/>and Other Sources (Uses)</b> ..... | <b>(\$227,944)</b>                     | <b>(\$227,944)</b> | <b>\$13,422</b>  |

See Notes to the Budget and Actual Schedule.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

NOTES TO THE BUDGET AND ACTUAL SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2014

State law requires the County to prepare budgets for all funds. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated state and federal revenue with the approval of the County Commissioners. There was one budget amendment in 2014 and no budget amendments in 2013.

The Board approves the original budgets on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue.

The County budgets may also include encumbrances, which represent commitments to expend funds under current budget appropriations. All appropriations lapse at the end of the fiscal year except for accounts payable and encumbrances. There were no encumbrances in 2014 or 2013.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

|   | CFDA<br>No.     | Identification<br>Number | Federal<br>Expenditures |
|---|-----------------|--------------------------|-------------------------|
| <b>U.S. Department of Agriculture</b>                               |                 |                          |                         |
| Forest Service Schools and Roads Cluster                            |                 |                          |                         |
| Direct Grant - Forest Service Schools and Roads:                    |                 |                          |                         |
| Forest Service Schools and Roads:                                   |                 |                          |                         |
| Title II - Special Projects .....                                   | 10.665          | 12-DG-<br>11011600-28    | \$5,892                 |
| Administered by Montana Department of Administration:               |                 |                          |                         |
| Schools and Roads - Grants to State .....                           |                 |                          |                         |
| Title I - Schools and Roads .....                                   | 10.665          | N/A                      | 695,085                 |
| Title III - County Projects .....                                   | (Note B) 10.665 | N/A                      | 16,257                  |
| Total Administered by Montana Department<br>of Administration ..... |                 |                          | 711,342                 |
| Total - Forest Reserve Schools and Roads Cluster .....              | 10.665          | N/A                      | 717,234                 |
| Administered by Montana Department of Agriculture:                  |                 |                          |                         |
| Forest Health Protection .....                                      | 10.680          | MDA 2012-<br>720         | 450                     |
| Total U.S. Department of Agriculture .....                          |                 |                          | 717,684                 |
| <b>U.S. Department of Interior</b>                                  |                 |                          |                         |
| Administered by Montana Department of Administration:               |                 |                          |                         |
| Taylor Grazing Act (2) .....  | 15.227          | N/A                      | 863                     |
| <b>U.S. Department of Justice</b>                                   |                 |                          |                         |
| Administered by Montana Board of Crime Control:                     |                 |                          |                         |
| Crime Victim Assistance .....                                       | 20.575          | N/A                      | 16,341                  |
| Sub-Total Federal Awards .....                                      |                 |                          | \$734,888               |

See Notes to the Schedule of Expenditures of Federal Awards.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

|  | CFDA<br>No. | Identification<br>Number | Federal<br>Expenditures |
|--|-------------|--------------------------|-------------------------|
| Sub-Total Federal Awards (from previous page) .....                        |             |                          | <u>\$734,888</u>        |
| <b>U.S. Department of Health and Human Services</b>                        |             |                          |                         |
| Passed Through Montana Department of Public Health<br>and Human Services:  |             |                          |                         |
| Administered by Area V Agency on Aging:                                    |             |                          |                         |
| Special Programs for the Aging - Title IIIB .....                          | 93.044      | A514-003-C               | 4,950                   |
| Special Programs for the Aging - Title IIID .....                          | 93.043      | A514-003-C               | 234                     |
| National Family Caregiver Support - Title IIIE .....                       | 93.052      | A514-003-C               | 6,890                   |
| Administered by Montana Department of Public Health<br>and Human Services: |             |                          |                         |
| Public Health Emergency Preparedness .....                                 | 93.069      | 14-07-6-11-<br>024-0     | 19,565                  |
| Immunization Cooperative Agreements .....                                  | 93.268      | N/A                      | 344                     |
| Maternal and Child Health Services Block Grant .....                       | 93.994      | 14-07-5-01-<br>020-0     | <u>1,937</u>            |
| Total U.S. Department of Health and Human Services .....                   |             |                          | <u>33,920</u>           |
| <b>U.S. Department of Homeland Security</b>                                |             |                          |                         |
| Administered by Montana Department of Military Affairs:                    |             |                          |                         |
| Hazard Mitigation Grant Program .....                                      | 97.039      | HMGP P-18-F              | 54,941                  |
| Emergency Management Performance Grant . (Note C)                          | 97.042      | FFY 13 EMPG              | <u>5,899</u>            |
| Total U.S. Department of Homeland Security .....                           |             |                          | <u>60,840</u>           |
| TOTAL FEDERAL AWARDS .....   |             |                          | <u><u>\$829,648</u></u> |

See Notes to the Schedule of Expenditures of Federal Awards.

**GRANITE COUNTY  
PHILIPSBURG, MONTANA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2014

**A. ACCOUNTING POLICIES**

The accounting policies used in preparing the schedule of expenditures of federal awards are the same as those used in the preparation of the government fund financial statements as described in Note 1 B to the financial statements. Federal payments-in-lieu-of-taxes (PILT) is not considered to be a Federal award.

**B. FOREST RESERVE ENTITLEMENT**

Payments from the Forest Reserve Entitlement Grant- Title III are entitlement payments that the County may use for certain County project. The County accumulates these funds to use for emergencies or to use on major projects. Title II are payments for special projects that benefit the resources on federal lands. These special projects are recommended by a resource advisory council.

**C. TRANSFERS**

Funds in the amount of \$54,941 (CFDA 97.039) were passed through to the Granite County Medical Center for their Generator Replacement Project in accordance with the grant award.

N/A = Not Applicable or Not Available

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E-MAIL: ron.foltz@ronfoltzcpa.com

FACSIMILE:  
(406) 728-0957

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

Board of Commissioners  
Granite County  
Philipsburg, Montana

I have audited, in accordance with U.S. generally accepted auditing standards 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 government activities, each major fund, and the aggregate remaining fund information of Granite County, Philipsburg, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Granite County's basic financial statements, and have issued my report thereon dated March 30, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 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.

I consider item **2014-001** described in the accompanying schedule of findings and questioned cost to be a significant deficiency.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Granite County's financial statements are free from material misstatement, I 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

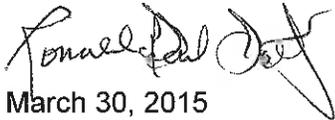
The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

## **GRANITE COUNTY'S RESPONSE TO FINDINGS**

Granite County's response to the finding identified in my audit is described on page 44. Granite County's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on it.

  
March 30, 2015

**RONALD PAUL FOLTZ**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Commissioners  
Granite County  
Philipsburg, Montana

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

I have audited the compliance of Granite County, Philipsburg, Montana, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Granite County's major federal programs for the year ended June 30, 2014. Granite County's major federal program is 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**

My responsibility is to express an opinion on compliance for each of Granite County's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards; 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 I 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 Granite County's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Granite County's compliance.

## Opinion on Each Major Federal Program

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

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Granite County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Granite County's internal control over compliance with the types of requirements that could have a direct and material effect on its 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, I do not express an opinion on the effectiveness of Granite County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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.

My 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.

I did not identify any deficiencies in internal control over compliance that I 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 my 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.



March 30, 2015

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR GRANITE COUNTY  
PHILIPSBURG, MONTANA

YEAR ENDED JUNE 30, 2014

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

1. Type of auditor's report issued: Unmodified opinion
2. Internal control over financial reporting:  
Material weaknesses identified? \_\_\_\_\_ yes     X  no  
Significant deficiency(s) identified not  
considered to be material weaknesses?  X  yes    \_\_\_\_\_ none reported
3. Noncompliance material to the  
financial statements noted? \_\_\_\_\_ yes     X  no

Federal Awards

4. Internal control over major programs:  
Material weaknesses identified? \_\_\_\_\_ yes     X  no  
Significant deficiency(s) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes     X  none reported
5. Type of auditor's report issued on  
compliance for major programs: Unmodified opinion
6. Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes     X  no
7. Identification of major programs:  
U. S. Department of Agriculture  
CFDA No. 10.665 and 10.666                      Forest Service Schools and Roads Cluster
8. Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000
9. Auditee qualified as low-risk auditee?  X  yes    \_\_\_\_\_ no

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

**FINDING - SIGNIFICANT DEFICIENCY:**

**2014-001 Segregation of Accounting Duties**

Ideal segregation of accounting duties is not always possible in an organization with a small staff as is the case with Granite County.

*Accordingly, I recommend the Board of Commissioners continue to monitor the County's activities and transactions.*

**PRIOR YEAR AUDIT FINDINGS**

**2013-001 Segregation of Accounting Duties -inherent weakness - Repeated, see 2014-001.**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**PRIOR YEAR AUDIT FINDINGS**

No matters were reported.

**Office of  
The Board of County Commissioners  
Granite County**

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Drummond MT 59832

Bill Slaughter, Commissioner  
P O Box 96  
Hall MT 59837

**COUNTY OF GRANITE, MONTANA  
FY 2013-2014 AUDIT  
MANAGEMENT RESPONSE TO FINDING -  
SIGNIFICANT DEFICIENCY**

While the Granite County audit report for Fiscal Year 2013-2014 had no questioned costs or federal award findings, the audit did list one finding - significant deficiency. It is addressed as follows:

**FINDING – SIGNIFICANT DEFICIENCY:**

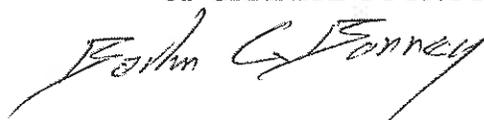
**2014-001      Segregation of Accounting Duties**

The auditor's recommendation will be implemented by the Board of Commissioners continuing to monitor the county's financial activities and transactions.

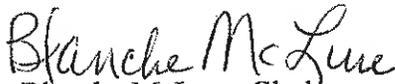
The Board of County Commissioners of Granite County expresses its sincere appreciation to the accounting firm of Ronald Paul Foltz CPA and auditor-in-charge Dan Meyer for their courteous and professional conduct during this audit.

Dated this 30<sup>th</sup> day of March, 2015.

BOARD OF COUNTY COMMISSIONERS  
OF GRANITE COUNTY



Barton C. Bonney, Chairman



ATTEST: Blanche McLure, Clerk

cc: County Attorney Blaine Bradshaw  
Ronald Paul Foltz CPA  
Doyle and Associates