

LAKE COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

LAKE COUNTY, MONTANA

Fiscal year Ended June 30, 2014

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LAKE COUNTY, MONTANA

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LAKE COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Ann Brower
Gale Decker
William D. Barron

Commissioner
Commissioner
Commissioner

COUNTY OFFICIALS

Mitchell Young
Patti Kugler
Paula Holle
Lyn Fricker
Joey Jayne
Michelle Wood
Vicki Riebe
Jay Doyle

County Attorney
Treasurer
Clerk and Recorder / Auditor
Clerk of District Clerk
Justice of the Peace
School Superintendent
Finance Director
Sheriff

LAKE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

As management of Lake County, Polson, Montana we offer readers of Lake County's basic financial statements this narrative overview and analysis of the financial activities of Lake 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

- Lake County's assets exceed its liabilities at June 30, 2014 by \$34,407,818 (net position). Of this amount, \$1,726,091 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- Lake County's governmental assets increased by \$4,617,319 which is largely attributable to infrastructure investment and machinery & equipment purchases. As of the close of the current fiscal year, Lake County's governmental funds reported combined ending fund balances of \$7,352,775, an increase of \$1,174,695, in comparison with the prior year. Approximately 39% of this amount, \$2,909,509 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,222,206 or 99% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Lake County's basic financial statements. Lake County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* 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 assets may serve as a useful indicator of whether the County's financial position is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets 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*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in the 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 (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Lake County include general government, public safety, public works, public health, social and economic services, culture and recreation, and housing and community development. The business-type activities of Lake County include a Solid Waste operation.

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. Lake 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 Lake County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of Lake County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Lake County maintains 83 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Road fund, Poor fund, Public Safety fund, and TIGER Grant fund, which are considered to be major funds. Major funds are determined by a formula that considers the percentage of total governmental assets, liabilities, revenues and expenditures contained in each individual fund. Data from the other 78 governmental funds are combined into a single, aggregated presentation.

Lake County adopts annual appropriated budgets for its governmental and proprietary funds. Schedules providing budgetary comparison have been provided to demonstrate compliance with both the original and final budgets.

Proprietary funds. Lake County operates a solid waste utility, with a transfer station, which is a proprietary enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The proprietary fund statements provide detail information for the Solid Waste Fund, which is classified as a major enterprise fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside Lake County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Lake County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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.

Government-wide Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Lake County, assets exceeded liabilities by \$34,366,368 at the close of the most recent fiscal year.

The following table provides a summary comparison of the County's governmental and business-type net position for fiscal year 2014 and compares to the prior year.

| | Governmental Activities | | | Business-Type Activities | | |
|----------------------------------|-------------------------|-------------------|---------------------|--------------------------|------------------|---------------------|
| | FY 14 | FY 13 | Change Inc (Dec) | FY 14 | FY 13 | Change Inc (Dec) |
| Current and Other Assets | 8,424,826 | 7,488,457 | 936,369 | 2,756,290 | 2,628,210 | 128,080 |
| Capital Assets | 22,194,436 | 18,234,315 | 3,960,121 | 4,651,625 | 4,880,496 | (228,871) |
| Total Assets | <u>30,619,262</u> | <u>25,722,772</u> | <u>4,896,490</u> | <u>7,407,915</u> | <u>7,508,706</u> | <u>(100,791)</u> |
| Long Term Debt | 2,380,005 | 1,907,702 | 472,303 | 130,972 | 239,209 | (108,237) |
| Other Liabilities | 102,082 | 587,374 | (485,292) | 1,047,750 | 1,071,782 | (24,032) |
| Total Liabilities | <u>2,482,087</u> | <u>2,495,076</u> | <u>(12,989)</u> | <u>1,178,722</u> | <u>1,310,991</u> | <u>(132,269)</u> |
| Net Investment in Capital Assets | 21,051,471 | 17,440,212 | 3,611,259 | 4,651,625 | 4,752,493 | (100,868) |
| Restricted | 5,249,736 | 4,247,341 | 1,002,395 | 1,032,968 | 0 | 1,032,968 |
| Unrestricted | 1,835,968 | 1,540,143 | 295,825 | 544,600 | 1,445,222 | (900,622) |
| Total Net Position | <u>28,137,175</u> | <u>23,227,696</u> | <u>4,909,479</u> | <u>6,229,193</u> | <u>6,197,715</u> | <u>31,478</u> |

By far the largest portion of Lake County's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Lake County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Lake County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$6,282,704 of Lake County's net position (18%) represents resources that are subject to external restrictions on how they may be used. A reserve of \$99,764 is not available for spending because it is committed for repayment of debt. The remaining balance of *unrestricted net position*, \$2,380,568 (7%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Lake County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position. Governmental and Business-type activities increased the County's net position by \$4,607,347 in 2014. The table below indicates the changes in net position for governmental and business-type activities in 2014 and compares to the prior year.

| | Governmental Activities | | | Business-Type Activities | | |
|---|-------------------------|------------|---------------------|--------------------------|-----------|---------------------|
| | FY 14 | FY 13 | Change Inc (Dec) | FY 14 | FY 13 | Change Inc (Dec) |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | 2,124,079 | 1,879,687 | 244,392 | 2,611,625 | 2,551,106 | 60,519 |
| Operating Grants & Contributions | 2,005,104 | 1,544,973 | 460,131 | | | 0 |
| Capital Grants & Contributions | 3,426,323 | 4,973,450 | (1,547,127) | | | 0 |
| General Revenues | | | | | | |
| Property Taxes | 10,096,732 | 9,820,778 | 275,954 | | | 0 |
| Licenses & Permits | 123,058 | 122,712 | 346 | | | |
| Liquor Tax Apportionment | 51,115 | 50,714 | 401 | | | 0 |
| Miscellaneous | 334,587 | 186,477 | 148,110 | | | 0 |
| Interest | 73,739 | 66,502 | 7,237 | 8,008 | 2,253 | 5,755 |
| Local Option Tax | 503,570 | 482,528 | 21,042 | | | 0 |
| PILT | 455,182 | 382,783 | 72,399 | | | 0 |
| Unrestricted State/Federal | 4,187 | | 4,187 | | | |
| State entitlement | 857,898 | 834,548 | 23,350 | | | 0 |
| Grants & Entitlements not | | | | | | 0 |
| Restricted to Specific Programs | 11 | | 11 | | | 0 |
| Contributions and Donations | 51,040 | 45,457 | 5,583 | | | 0 |
| Total Revenues | 20,106,625 | 20,390,609 | (283,984) | 2,619,633 | 2,553,359 | 66,274 |
| Program Expenses | | | | | | |
| General Government | 3,812,539 | 3,674,128 | 138,411 | | | 0 |
| Public Safety | 5,697,660 | 5,463,521 | 192,689 | | | 0 |
| Public Works | 3,380,849 | 2,951,987 | 428,862 | | | 0 |
| Public Health | 1,207,158 | 1,152,325 | 54,833 | | | 0 |
| Social & Economic Services | 574,945 | 528,910 | 46,035 | | | 0 |
| Culture and recreation | 92,746 | 105,581 | (12,835) | | | 0 |
| Housing and Community | 121,762 | 325,224 | (203,462) | | | 0 |
| Development | | | | | | |
| Conservation of Natural Resources | 21,732 | | 21,732 | | | 0 |
| Debt Service - Interest | 35,367 | 35,250 | 117 | | | 0 |
| Internal services | 254,861 | 256,337 | (1,476) | | | 0 |
| Miscellaneous | 331,137 | 817,030 | (485,893) | | | 0 |
| Solid Waste | | | 0 | 2,612,713 | 2,859,704 | (246,991) |
| Total Expenditures | 15,530,756 | 15,310,293 | 179,013 | 2,612,713 | 2,859,704 | (246,991) |
| Excess (deficiency) before special items and transfers | 4,575,869 | 5,080,316 | (504,447) | 6,920 | (306,345) | 313,265 |
| Gain (Loss) on sale of capital assets | | 45,582 | (45,582) | 24,558 | 1,350 | 23,208 |
| Increase (Decrease) in Net Position | 4,575,869 | 5,125,898 | (550,029) | 31,478 | (304,995) | 336,473 |

Financial Analysis of the County's Funds

As noted earlier, Lake County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview

The focus of County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of the end of 2014 the combined ending fund balances of Lake County's governmental funds were \$7,352,775. Governmental funds relying primarily on property tax maintain a cash reserve to provide liquidity until tax revenue is received in November. Remaining cash may be re-appropriated in accordance with the purposes of the specific funds.

Lake County has five major governmental funds: General, Poor, Road, Public Safety & T.I.G.E.R. Grant Funds.

General Fund. This is the chief operating fund of Lake County. At the end of the fiscal year 2014 unreserved fund balance of the general fund was \$ 3,222,206. Unreserved fund balance as a percentage of total fund expenditures can be a good tool to use to measure the liquidity of the general fund. For fiscal year 2014 the unreserved fund balance represented 99% of total general fund expenditures. It accounts for many of the County's general and administrative services, such as legislative, judicial, financial, elections, facilities administration, legal, and civil defense and emergency services.

Poor Fund. This fund provides for two primary needs, the health care needs for inmates and indigent burial needs. At the end of fiscal year ended 2014 the fund balance was a deficit of (\$308,550). The prior year ended fund balance was a deficit of (\$240,905).

Road Fund. This fund is a special revenue fund used to account for Lake County's road maintenance. At the end of the fiscal year ended 2014 unreserved fund balance was \$876,034. The prior year ending fund balance was \$586,464.

Public Safety Fund. This fund is a special revenue fund used to account for Lake County's sheriff, dispatch, coroner and detention services. At the end of the fiscal year ended 2014 restricted fund balance of the public safety fund was \$ 388,770. The prior year ending fund balance was \$ 486,519.

ARRA – Tiger Grant. This fund is a capital project fund for the express purpose of accounting for funds relating to the construction of 1st Street in Polson and Skyline Dive Improvements. The primary revenue was a grant and the expenditures related to road construction and improvements. This project was substantially completed in FY 2014.

FY14 General Fund Budgetary Highlights

Over the course of the year, Lake County's general fund was not revised. The general fund expenditure budget was \$3,951,774. Over the course of the year, our actual reported resources were more than budgeted by \$46,195. Our anticipated taxes and assessments for the general fund show a positive difference of \$27,115. Our investment earnings show a positive difference of \$5,924 from the budgeted amount. Appropriations for General Government show \$723,238 budgeted for expenditures that were not expended in this fiscal year. Overestimates in several departments contribute to this.

Capital Assets

Lake County's investment in capital assets (depreciable, net) for its governmental and business type activities as of June 30, 2014 was \$27,879,029. This investment in capital assets includes land, significant road projects, construction in progress, buildings, machinery & equipment, and improvements other than buildings.

| | Capital Assets | | | | | |
|--------------------------|-------------------------|------------|---------------------|-----------|------------|------------|
| | Governmental Activities | | Business Activities | | Totals | |
| | FY 14 | FY 13 | FY 14 | FY 13 | FY 13 | FY 14 |
| Capital Assets | | | | | | |
| Depreciable – Net | 6,557,535 | 6,572,321 | 3,633,487 | 3,862,358 | 10,191,022 | 10,434,679 |
| Capital Assets | | | | | | |
| Land | 2,413,386 | 2,413,386 | 723,735 | 723,735 | 3,137,121 | 3,137,121 |
| Capital Assets | | | | | | |
| Construction In Process | 13,223,515 | 9,248,608 | 294,403 | 294,403 | 13,517,918 | 9,543,011 |
| Total Non Current Assets | 22,194,436 | 18,234,315 | 4,651,625 | 4,880,496 | 26,846,061 | 23,114,811 |

Long-term debt.

As of June 30, 2014 the County had total debt outstanding of \$3,410,201. Of this amount, \$3,271,504 comprises debt backed by the full faith and credit of the government and \$138,597 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

Long Term Debt

| | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Governmental Activities | | | | | |
| Special Assessment Debt | 192,531 | 97,726 | 79,635 | 106,562 | 138,597 |
| Loans/Contracted Debt | 882,841 | 1,001,995 | 744,931 | 652,593 | 622,406 |
| Compensated Absences | 659,106 | 644,505 | 678,781 | 740,963 | 772,123 |
| Intercap Loans | 88 | | | | 365,022 |
| Capital Leases | 122,328 | 73,392 | 51,425 | 34,948 | 16,940 |
| Advances from Solid Waste | | | | 316,000 | 252,800 |
| Total | 1,856,894 | 1,817,618 | 1,554,772 | 1,851,066 | 2,167,888 |
| Business Type Activities | | | | | |
| Loans/Contracted Debt | 59,042 | 42,020 | 32,426 | 20,834 | 10,417 |
| Compensated Absences | 73,843 | 59,283 | 58,026 | 65,150 | 65,372 |
| Intercap Loans | 428,439 | 321,349 | 214,159 | 107,169 | |
| Landfill Closure/Post closure | 913,676 | 913,676 | 957,325 | 1,007,080 | 899,224 |
| Total | 1,475,000 | 1,336,328 | 1,261,936 | 1,200,233 | 975,013 |
| Other Post-Employment Benefits | | | | | |
| Governmental Activities | | 186,318 | 279,477 | 372,636 | 464,917 |
| Business Type Activities | | 23,028 | 34,542 | 46,056 | 55,183 |
| Total | - | 209,346 | 314,019 | 418,692 | 520,100 |

Economic Factors

- The Confederated Salish & Kootenai reservation is mainly contained in Lake County which has an impact on our tax base. There are approximately 325,927 acres of tribal trust land.
- As of June 30, 2014, there was \$1,539,186 in protested taxes.
- Lake County, in February 2010, received a \$12,000,000 TIGER Grant from the Federal Highway Administration. The grant specifies upgrade of 1st street east in the City of Polson and the upgrade of Skyline Drive within Lake County.

Contacting the County's Financial Management

This financial report is designed to provide a general overview of Lake County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at Lake County, 106 4th Ave. East, Polson, MT 59860-2125.

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lake County
Polson, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lake County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2014, Lake County, Montana adopted new accounting guidance, GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 9, 49 through 52, and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2015 on our consideration of the Lake County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake County, Montana's internal control over financial reporting and compliance.

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

March 10, 2015

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

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and investments | \$ 6,567,993 | \$ 1,304,231 | \$ 7,872,224 |
| Taxes and assessments receivable, net | 969,969 | 166,291 | 1,136,260 |
| Internal balances | (252,800) | 252,800 | - |
| Accounts receivable - net | 33,707 | - | 33,707 |
| Due from other governments | 349,202 | - | 349,202 |
| Inventories | 653,433 | - | 653,433 |
| RID Loan Receivable | 103,322 | - | 103,322 |
| Total current assets | <u>\$ 8,424,826</u> | <u>\$ 1,723,322</u> | <u>\$ 10,148,148</u> |
| Noncurrent assets | | | |
| Restricted cash and investments | \$ - | \$ 1,032,968 | \$ 1,032,968 |
| Capital assets - land | \$ 2,413,386 | \$ 723,735 | \$ 3,137,121 |
| Capital assets - construction in progress | 13,223,515 | 294,403 | 13,517,918 |
| Capital assets - depreciable, net | 6,557,535 | 3,633,487 | 10,191,022 |
| Total noncurrent assets | <u>\$ 22,194,436</u> | <u>\$ 5,684,593</u> | <u>\$ 27,879,029</u> |
| Total assets | <u>\$ 30,619,262</u> | <u>\$ 7,407,915</u> | <u>\$ 38,027,177</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Warrants payable | \$ 6,470 | \$ - | \$ 6,470 |
| Accounts payable | 92,593 | 148,526 | 241,119 |
| Accrued interest payable | 2,982 | - | 2,982 |
| Due to other governments | 37 | - | 37 |
| Current portion of long-term liabilities | - | 10,417 | 10,417 |
| Current portion of long-term capital liabilities | 266,104 | - | 266,104 |
| Current portion of compensated absences payable | 535,699 | 45,581 | 581,280 |
| Total current liabilities | <u>\$ 903,885</u> | <u>\$ 204,524</u> | <u>\$ 1,108,409</u> |
| Noncurrent liabilities | | | |
| Landfill closure postclosure liability | \$ - | \$ 899,224 | \$ 899,224 |
| Noncurrent portion of long-term liabilities | 464,917 | 55,183 | 520,100 |
| Noncurrent portion of long-term capital liabilities | 876,861 | - | 876,861 |
| Noncurrent portion of compensated absences | 236,424 | 19,791 | 256,215 |
| Total noncurrent liabilities | <u>\$ 1,578,202</u> | <u>\$ 974,198</u> | <u>\$ 2,552,400</u> |
| Total liabilities | <u>\$ 2,482,087</u> | <u>\$ 1,178,722</u> | <u>\$ 3,660,809</u> |
| NET POSITION | | | |
| Net investment in capital assets | \$ 21,051,471 | \$ 4,651,625 | \$ 25,703,096 |
| Restricted for debt service | 99,764 | - | 99,764 |
| Restricted for general government | 749,621 | - | 749,621 |
| Restricted for public safety | 945,514 | - | 945,514 |
| Restricted for public works | 2,472,870 | 1,032,968 | 3,505,838 |
| Restricted for public health | 832,196 | - | 832,196 |
| Restricted for culture and recreation | 122,799 | - | 122,799 |
| Restricted for economic development | 26,972 | - | 26,972 |
| Unrestricted | 1,835,968 | 544,600 | 2,380,568 |
| Total net position | <u>\$ 28,137,175</u> | <u>\$ 6,229,193</u> | <u>\$ 34,366,368</u> |

See accompanying Notes to the Financial Statements

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

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---|----------------------|-----------------------------|---|---|--|---------------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 3,812,539 | \$ 534,048 | \$ 98,855 | \$ - | \$ (3,179,636) | \$ - | \$ (3,179,636) |
| Public safety | 5,697,660 | 352,345 | 123,238 | - | (5,222,077) | - | (5,222,077) |
| Public works | 3,380,849 | 825,275 | 980,621 | 3,426,323 | 1,851,370 | - | 1,851,370 |
| Public health | 1,207,158 | 404,279 | 347,525 | - | (455,354) | - | (455,354) |
| Social and economic services | 574,945 | 3,750 | 83,929 | - | (487,266) | - | (487,266) |
| Culture and recreation | 92,746 | 4,382 | 370,936 | - | 282,572 | - | 282,572 |
| Housing and community development | 121,762 | - | - | - | (121,762) | - | (121,762) |
| Conservation of natural resources | 21,732 | - | - | - | (21,732) | - | (21,732) |
| Debt service - interest | 35,367 | - | - | - | (35,367) | - | (35,367) |
| Internal services | 254,861 | - | - | - | (254,861) | - | (254,861) |
| Miscellaneous | 331,137 | - | - | - | (331,137) | - | (331,137) |
| Total governmental activities | \$ <u>15,530,756</u> | \$ <u>2,124,079</u> | \$ <u>2,005,104</u> | \$ <u>3,426,323</u> | \$ <u>(7,975,250)</u> | \$ <u>-</u> | \$ <u>(7,975,250)</u> |
| Business-type activities: | | | | | | | |
| Solid Waste | \$ 2,612,713 | \$ 2,611,625 | \$ - | \$ - | \$ - | \$ (1,088) | \$ (1,088) |
| Total primary government | \$ <u>18,143,469</u> | \$ <u>4,735,704</u> | \$ <u>2,005,104</u> | \$ <u>3,426,323</u> | \$ <u>(7,975,250)</u> | \$ <u>(1,088)</u> | \$ <u>(7,976,338)</u> |
| General Revenues: | | | | | | | |
| Property taxes for general purposes | | | | | \$ 10,096,732 | \$ - | \$ 10,096,732 |
| Licenses and permits | | | | | 123,058 | - | 123,058 |
| Liquor tax apportionment | | | | | 51,115 | - | 51,115 |
| Miscellaneous | | | | | 334,587 | - | 334,587 |
| Interest/investment earnings | | | | | 73,739 | 8,008 | 81,747 |
| Local option taxes | | | | | 503,570 | - | 503,570 |
| Unrestricted federal/state shared revenues | | | | | 4,187 | - | 4,187 |
| State entitlement | | | | | 857,898 | - | 857,898 |
| Grants and entitlements not restricted to specific programs | | | | | 11 | - | 11 |
| PILT | | | | | 455,182 | - | 455,182 |
| Contributions & donations | | | | | 51,040 | - | 51,040 |
| Gain (loss) on sale of capital assets | | | | | - | 24,558 | 24,558 |
| Total general revenues, special items and transfers | | | | | \$ <u>12,551,119</u> | \$ <u>32,566</u> | \$ <u>12,583,685</u> |
| Change in net position | | | | | \$ <u>4,575,869</u> | \$ <u>31,478</u> | \$ <u>4,607,347</u> |
| Net position - beginning | | | | | \$ 23,227,696 | \$ 6,197,715 | \$ 29,425,411 |
| Restatements | | | | | 333,610 | - | 333,610 |
| Net position - beginning - restated | | | | | \$ <u>23,561,306</u> | \$ <u>6,197,715</u> | \$ <u>29,759,021</u> |
| Net position - end | | | | | \$ <u>28,137,175</u> | \$ <u>6,229,193</u> | \$ <u>34,366,368</u> |

See accompanying Notes to the Financial Statements

**Lake County, Montana
Balance Sheet
Governmental Funds
June 30, 2014**

| | <u>General</u> | <u>Road</u> | <u>Poor</u> | <u>Public Safety</u> | <u>ARRA - Tiger Grant</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|---------------------|---------------------|---------------------|--------------------------|-------------------------------|---|---|
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and investments | \$ 2,989,323 | \$ 245,500 | \$ - | \$ 351,861 | \$ 109,877 | \$ 2,871,432 | \$ 6,567,993 |
| Taxes and assessments receivable, net | 136,550 | 118,415 | 9,434 | 303,967 | - | 401,603 | 969,969 |
| Accounts receivable - net | - | - | - | - | - | 33,707 | 33,707 |
| Due from other funds | 479,057 | - | - | - | - | 17,790 | 496,847 |
| Due from other governments | - | 68,346 | - | 48,327 | - | 232,529 | 349,202 |
| Inventories | - | 580,488 | - | - | - | 72,945 | 653,433 |
| RID Loan Receivable | - | 103,322 | - | - | - | - | 103,322 |
| Total assets | <u>\$ 3,604,930</u> | <u>\$ 1,116,071</u> | <u>\$ 9,434</u> | <u>\$ 704,155</u> | <u>\$ 109,877</u> | <u>\$ 3,630,006</u> | <u>\$ 9,174,473</u> |
| Current liabilities: | | | | | | | |
| Warrants payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,470 | \$ 6,470 |
| Accounts payable | 2,078 | 22 | 6,121 | 11,418 | - | 72,954 | 92,593 |
| Accrued interest payable | 2,982 | - | - | - | - | - | 2,982 |
| Due to other funds | - | - | 302,429 | - | 109,877 | 84,541 | 496,847 |
| Due to other governments | 37 | - | - | - | - | - | 37 |
| Total current liabilities | <u>\$ 5,097</u> | <u>\$ 22</u> | <u>\$ 308,550</u> | <u>\$ 11,418</u> | <u>\$ 109,877</u> | <u>\$ 163,965</u> | <u>\$ 598,929</u> |
| Noncurrent liabilities: | | | | | | | |
| Advances payable | \$ 131,200 | \$ 121,600 | \$ - | \$ - | \$ - | \$ - | \$ 252,800 |
| Total noncurrent liabilities | <u>\$ 131,200</u> | <u>\$ 121,600</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 252,800</u> |
| Total liabilities | <u>\$ 136,297</u> | <u>\$ 121,622</u> | <u>\$ 308,550</u> | <u>\$ 11,418</u> | <u>\$ 109,877</u> | <u>\$ 163,965</u> | <u>\$ 851,729</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| Deferred inflows of resources | \$ 136,550 | \$ 118,415 | \$ 9,434 | \$ 303,967 | \$ - | \$ 401,603 | \$ 969,969 |
| Total deferred inflows of resources | <u>\$ 136,550</u> | <u>\$ 118,415</u> | <u>\$ 9,434</u> | <u>\$ 303,967</u> | <u>\$ -</u> | <u>\$ 401,603</u> | <u>\$ 969,969</u> |
| FUND BALANCES | | | | | | | |
| Nonspendable | \$ - | \$ 580,488 | \$ - | \$ - | \$ - | \$ 72,945 | \$ 653,433 |
| Restricted | - | 295,546 | - | 388,770 | - | 2,995,640 | 3,679,956 |
| Unassigned fund balance | 3,332,083 | - | (308,550) | - | - | (4,147) | 3,019,386 |
| Total fund balance | <u>\$ 3,332,083</u> | <u>\$ 876,034</u> | <u>\$ (308,550)</u> | <u>\$ 388,770</u> | <u>\$ -</u> | <u>\$ 3,064,438</u> | <u>\$ 7,352,775</u> |

See accompanying Notes to the Financial Statements

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

| | |
|---|----------------------|
| Total fund balances - governmental funds | \$ 7,352,775 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 22,194,436 |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. | 969,969 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | (2,380,005) |
| Total net position - governmental activities | <u>\$ 28,137,175</u> |

See accompanying Notes to the Financial Statements

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

| | <u>General</u> | <u>Road</u> | <u>Poor</u> | <u>Public Safety</u> | <u>ARRA - Tiger Grant</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------|---------------------|--------------------------|-------------------------------|---|---|
| REVENUES | | | | | | | |
| Taxes and assessments | \$ 1,935,448 | \$ 1,331,082 | \$ 103,519 | \$ 3,325,645 | \$ - | \$ 3,748,767 | \$ 10,444,461 |
| Licenses and permits | 8,915 | - | - | 10,949 | - | 125,767 | 145,631 |
| Intergovernmental | 774,289 | 317,757 | 9,357 | 152,306 | 3,426,323 | 2,515,536 | 7,195,568 |
| Charges for services | 339,790 | 133,207 | - | 268,388 | - | 846,042 | 1,587,427 |
| Fines and forfeitures | 92,345 | - | - | 4,869 | - | 15,680 | 112,894 |
| Miscellaneous | 26,648 | 35,000 | - | - | - | 47,372 | 109,020 |
| Investment earnings | 70,824 | 5 | - | 11 | - | 2,968 | 73,808 |
| Internal services | - | - | - | - | - | 517 | 517 |
| Total revenues | <u>\$ 3,248,259</u> | <u>\$ 1,817,051</u> | <u>\$ 112,876</u> | <u>\$ 3,762,168</u> | <u>\$ 3,426,323</u> | <u>\$ 7,302,649</u> | <u>\$ 19,669,326</u> |
| EXPENDITURES | | | | | | | |
| General government | \$ 2,365,236 | \$ - | \$ - | \$ - | \$ 109,877 | \$ 1,099,886 | \$ 3,574,999 |
| Public safety | 62,608 | - | - | 3,901,692 | - | 1,428,839 | 5,393,139 |
| Public works | 162 | 1,491,480 | - | - | - | 1,596,928 | 3,088,570 |
| Public health | - | - | - | - | - | 1,192,554 | 1,192,554 |
| Social and economic services | 13,250 | - | 282,025 | - | - | 279,670 | 574,945 |
| Culture and recreation | - | - | - | - | - | 78,724 | 78,724 |
| Housing and community development | - | - | - | - | - | 121,762 | 121,762 |
| Conservation of natural resources | - | - | - | - | - | 21,732 | 21,732 |
| Debt service - principal | 2,360 | 105,649 | - | 15,030 | - | 82,149 | 205,188 |
| Debt service - interest | 2,926 | 22,999 | - | 300 | - | 9,142 | 35,367 |
| Internal services | 254,861 | - | - | - | - | - | 254,861 |
| Miscellaneous | 6,231 | - | - | - | - | 277,727 | 283,958 |
| Capital outlay | 411,025 | 63,585 | - | 79,765 | 3,425,490 | 449,048 | 4,428,913 |
| Total expenditures | <u>\$ 3,118,659</u> | <u>\$ 1,683,713</u> | <u>\$ 282,025</u> | <u>\$ 3,996,787</u> | <u>\$ 3,535,367</u> | <u>\$ 6,638,161</u> | <u>\$ 19,254,712</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ 129,600</u> | <u>\$ 133,338</u> | <u>\$ (169,149)</u> | <u>\$ (234,619)</u> | <u>\$ (109,044)</u> | <u>\$ 664,488</u> | <u>\$ 414,614</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Proceeds of general long term debt | \$ 490,022 | \$ - | \$ - | \$ - | \$ - | \$ 7,178 | \$ 497,200 |
| Proceeds from the sale of general capital asset disposition | - | - | - | - | - | 12,200 | 12,200 |
| Transfers in | 202,968 | - | 101,504 | - | - | 737,862 | 1,042,334 |
| Transfers out | (40,936) | - | - | (8,000) | - | (993,398) | (1,042,334) |
| Total other financing sources (uses) | <u>\$ 652,054</u> | <u>\$ -</u> | <u>\$ 101,504</u> | <u>\$ (8,000)</u> | <u>\$ -</u> | <u>\$ (236,158)</u> | <u>\$ 509,400</u> |
| Net Change in Fund Balance | <u>\$ 781,654</u> | <u>\$ 133,338</u> | <u>\$ (67,645)</u> | <u>\$ (242,619)</u> | <u>\$ (109,044)</u> | <u>\$ 428,330</u> | <u>\$ 924,014</u> |
| Fund balances - beginning | \$ 2,546,614 | \$ 586,464 | \$ (240,905) | \$ 486,519 | \$ 91,355 | \$ 2,708,033 | \$ 6,178,080 |
| Restatements | 3,815 | 156,232 | - | 144,870 | 17,689 | (71,925) | 250,681 |
| Fund balances - beginning, restated | <u>\$ 2,550,429</u> | <u>\$ 742,696</u> | <u>\$ (240,905)</u> | <u>\$ 631,389</u> | <u>\$ 109,044</u> | <u>\$ 2,636,108</u> | <u>\$ 6,428,761</u> |
| Fund balance - ending | <u>\$ 3,332,083</u> | <u>\$ 876,034</u> | <u>\$ (308,550)</u> | <u>\$ 388,770</u> | <u>\$ -</u> | <u>\$ 3,064,438</u> | <u>\$ 7,352,775</u> |

See accompanying Notes to the Financial Statements

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

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

Net change in fund balances - total governmental funds \$ 924,014

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased 4,434,913
- Depreciation expense (745,410)

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

- Proceeds from the sale of capital assets (12,044)

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

- Donated capital assets 184,333
- Long-term receivables (deferred revenue) 246,966

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

(31,160)

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

- Long-term debt principal payments 205,188

Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:

- Proceeds from the sale of long-term debt (497,200)
- New debt financed by the Road Department (41,450)

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability (92,281)

Change in net position - Statement of Activities \$ 4,575,869

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

| | | Business-Type Activities - Enterprise Fund |
|---|----|---|
| | | Solid Waste |
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ | 1,304,231 |
| Taxes and assessments receivable, net | | 166,291 |
| Total current assets | \$ | <u>1,470,522</u> |
| Noncurrent assets: | | |
| Restricted cash and investments | \$ | 1,032,968 |
| Advances to other funds | | 252,800 |
| Capital assets - land | | 723,735 |
| Capital assets - construction in progress | | 294,403 |
| Capital assets - depreciable, net | | 3,633,487 |
| Total noncurrent assets | \$ | <u>5,937,393</u> |
| Total assets | \$ | <u>7,407,915</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ | 148,526 |
| Current portion of long-term liabilities | | 10,417 |
| Current portion of compensated absences payable | | 45,581 |
| Total current liabilities | \$ | <u>204,524</u> |
| Noncurrent liabilities: | | |
| Landfill closure postclosure liability | \$ | 899,224 |
| Noncurrent portion of long-term liabilities | | 55,183 |
| Noncurrent portion of compensated absences | | 19,791 |
| Total noncurrent liabilities | \$ | <u>974,198</u> |
| Total liabilities | \$ | <u>1,178,722</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ | 4,651,625 |
| Restricted for public works | | 1,032,968 |
| Unrestricted | | 544,600 |
| Total net position | \$ | <u>6,229,193</u> |
| Total liabilities and net position | \$ | <u>7,407,915</u> |

See accompanying Notes to the Financial Statements

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

| | | Business-Type Activity - Enterprise Fund |
|--|----|---|
| | | <u>Solid Waste</u> |
| OPERATING REVENUES | | |
| Charges for services | \$ | 427,069 |
| Miscellaneous revenues | | 18,027 |
| Special assessments | | 2,166,529 |
| Total operating revenues | \$ | <u>2,611,625</u> |
| OPERATING EXPENSES | | |
| Personal services | \$ | 996,284 |
| Supplies | | 272,884 |
| Purchased services | | 1,005,755 |
| Fixed charges | | 50,998 |
| Depreciation | | 285,322 |
| Total operating expenses | \$ | <u>2,611,243</u> |
| Operating income (loss) | \$ | <u>382</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest revenue | \$ | 8,008 |
| Debt service interest expense | | (1,470) |
| Total non-operating revenues (expenses) | \$ | <u>6,538</u> |
| Income (loss) before contributions and transfers | \$ | 6,920 |
| SPECIAL AND EXTRAORDINARY ITEMS | | |
| Gain (loss) on sale of capital assets | \$ | 24,558 |
| Change in net position | \$ | <u>31,478</u> |
| Net Position - Beginning of the year | \$ | 6,197,715 |
| Net Position - End of the year | \$ | <u>6,229,193</u> |

See accompanying Notes to the Financial Statements

Lake County, Montana
Statement of Cash Flows
Proprietary Fund Type
Fiscal Year Ended June 30, 2014

| | Business - Type Activities- Enterprise Funds <u>Solid Waste</u> |
|---|--|
| Cash flows from operating activities: | |
| Cash received from providing services | \$ 2,594,072 |
| Cash received from miscellaneous sources | 18,027 |
| Cash payments to suppliers | (240,058) |
| Cash payments for professional services | (1,113,611) |
| Cash payments to employees | (986,935) |
| Net cash provided (used) by operating activities | <u>\$ 271,495</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (31,893) |
| Principal paid on debt | (117,586) |
| Interest paid on debt | (1,470) |
| Proceeds from bonds, loans and advances | 63,200 |
| Net cash provided (used) by capital and related financing activities | <u>\$ (87,749)</u> |
| Cash flows from investing activities: | |
| Interest on investments | 8,008 |
| Net cash provided (used) by investing activities | <u>\$ 8,008</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 191,754 |
| Cash and cash equivalents at beginning | 2,145,445 |
| Restatements - Includes beginning restricted cash | |
| Cash and cash equivalents at end | <u><u>\$ 2,337,199</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income (loss) | \$ 382 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | 285,322 |
| Other post-employment benefits | 9,127 |
| Changes in assets and liabilities: | |
| Accounts payable | 83,824 |
| Landfill closure/postclosure liability | (107,856) |
| Receivables | 474 |
| Compensated Absences | 222 |
| Net cash provided (used) by operating activities | <u><u>\$ 271,495</u></u> |

See accompanying notes to the financial statements

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

| | | <u>Investment Trust Funds</u> | | <u>Agency Funds</u> |
|---------------------------------|----|-----------------------------------|----|-------------------------|
| ASSETS | | | | |
| Cash and short-term investments | \$ | 14,560,426 | \$ | 3,065,924 |
| Taxes receivable | | - | | 2,194,039 |
| Due from others | | - | | 26,548 |
| Total assets | \$ | <u>14,560,426</u> | \$ | <u>5,286,511</u> |
| LIABILITIES | | | | |
| Warrants payable | \$ | - | \$ | 766,847 |
| Due to others | | - | | 4,519,664 |
| Total liabilities | \$ | <u>-</u> | \$ | <u>5,286,511</u> |
| NET POSITION | | | | |
| Assets held in trust | \$ | <u>14,560,426</u> | | |

See accompanying Notes to the Financial Statements

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

| | | <u>Investment Trust Funds</u> |
|--|----|-----------------------------------|
| ADDITIONS | | |
| Contributions: | | |
| Contributions to Investment Trust Fund | \$ | <u>18,288,312</u> |
| Investment earnings: | | |
| Interest and change in fair value of investments | \$ | <u>108,882</u> |
| Net investment earnings | \$ | <u>108,882</u> |
| Total additions | \$ | <u>18,397,194</u> |
| DEDUCTIONS | | |
| Distributions from investment trust fund | \$ | <u>13,846,306</u> |
| Total deductions | \$ | <u>13,846,306</u> |
| Change in net position | \$ | <u>4,550,888</u> |
| | | |
| Net Position - Beginning of the year | \$ | 10,009,538 |
| | | |
| Net Position - End of the year | \$ | <u><u>14,560,426</u></u> |

See accompanying Notes to the Financial Statements

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

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

Primary Government

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

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

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

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements:

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

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Major Funds:

The County reports the following major governmental funds:

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

Road Fund – A special revenue fund used for the construction, maintenance, or improvement of public roadways.

Poor Fund – A special revenue fund that is used to account for the public assistance programs of the County, primarily the health care needs for inmates and indigent burial needs.

Public Safety Fund – A special revenue fund that is used to account for public safety related activities.

ARRA Tiger Grant – A capital projects fund established to report all the activity relating to the America Recovery and Reinvestment Act (ARRA) grant, for the purpose of upgrading City and County streets and roads, including Skyline Drive under the Tiger Discretionary grant program.

Proprietary Funds:

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

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

Major Funds:

The County reports the following major proprietary funds:

Solid Waste Fund – An enterprise fund that accounts for the activities of the County’s solid waste service.

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Fiduciary Funds:

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

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

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

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

| | <u>Primary Government</u> |
|-----------------------------------|-------------------------------|
| <u>Cash on hand and deposits:</u> | |
| Petty Cash | 3,500 |
| <u>Cash in banks:</u> | |
| Demand deposits | 2,638,741 |
| Savings deposits | 5,952 |
| Time deposits | 4,492,098 |
| Credit Union Deposit | 15,114,213 |
| <u>Investments:</u> | |
| U.S. Government Securities | 4,277,038 |
| Total | \$ 26,531,542 |

Credit Risk

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

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

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

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

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

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

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

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

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

The government has no investments that require credit risk disclosure.

Custodial Credit Risk

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

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| | June 30, 2014 <u>Balance</u> |
|---|---------------------------------|
| <u>Depository Account</u> | |
| Insured | \$ 3,255,952 |
| - Collateral held by the pledging bank's trust department but not in the County's name. | 16,267,373 |
| Uninsured and uncollateralized | <u>2,715,727</u> |
| Total deposits and investments | <u>\$ 22,239,052</u> |

Deposit Security

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

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

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

Interest Rate Risk

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2014 along with their related interest rates and maturity dates.

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| <u>Investment</u> | <u>Interest Rate</u> | <u>Maturity Dates</u> | <u>Amount</u> |
|--|----------------------|-----------------------|---------------------|
| US Treasury Notes | 1.625% | 3/31/2019 | \$ 84,595 |
| US Treasury Notes | 1.625% | 3/31/2019 | 57,723 |
| Federal National Association Mortgage Notes | 0.800% | 6/13/2018 | 500,000 |
| Federal National Association Mortgage Notes | 1.625% | 11/27/2018 | 62,984 |
| Federal National Association Mortgage Notes | 1.250% | 9/28/2016 | 51,312 |
| Federal National Association Mortgage Notes | 1.030% | 1/30/2018 | 50,000 |
| Federal National Association Mortgage Notes | 0.900% | 5/26/2017 | 50,000 |
| Federal National Association Mortgage Notes | 1.125% | 2/22/2018 | 25,036 |
| Federal National Association Mortgage Notes | 1.050% | 5/25/2018 | 49,758 |
| Federal Home Loan Bank Notes | 1.450% | 6/27/2018 | 500,000 |
| Federal Home Loan Bank Notes | 1.650% | 2/28/2017 | 46,024 |
| Federal Home Loan Bank Notes | 2.500% | 10/30/2014 | 14,942 |
| Federal Home Loan Bank Notes | 1.350% | 6/28/2015 | 50,116 |
| Federal Home Loan Bank Notes | 1.750% | 9/11/2015 | 45,306 |
| Federal Home Loan Bank Notes | 1.000% | 9/27/2017 | 100,000 |
| Federal Home Loan Bank Notes | 1.830% | 3/26/2019 | 25,000 |
| Federal Home Loan Bank Notes | 1.000% | 8/30/2013 | 500,000 |
| Federal Home Loan Mortgage Corporation Notes | 1.200% | 6/12/2018 | 500,000 |
| Federal Home Loan Mortgage Corporation Notes | 1.400% | 6/26/2018 | 500,000 |
| Federal Home Loan Mortgage Corporation Notes | 1.500% | 3/20/2019 | 500,000 |
| Federal Home Loan Mortgage Corporation Notes | 1.000% | 7/28/2017 | 66,882 |
| Federal Home Loan Mortgage Corporation Notes | 1.000% | 9/29/2017 | 69,932 |
| Federal Home Loan Mortgage Corporation Notes | 1.000% | 7/28/2017 | 52,907 |
| Federal Home Loan Mortgage Corporation Notes | 1.875% | 2/20/2019 | 20,067 |
| Federal Home Loan Mortgage Corporation Notes | 2.050% | 4/30/2019 | 250,000 |
| Federal Farm Credit Bank Notes | 1.000% | 4/11/2018 | 3,000 |
| Federal Farm Credit Bank Notes | 1.500% | 6/11/2018 | 99,900 |
| Total | | | <u>\$ 4,275,484</u> |

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments." In addition, investments are separately held by several of the government's funds. The deposits and investments of the Solid Waste fund for landfill closure and post closure are held separately from those of other government funds.

Investment in the Treasurer's Pools

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County's investment policy and Montana law. The County's pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds. The County has one pooled investment trust fund invested in U.S. Government Securities, checking accounts, time deposits and savings accounts. The pooled funds are carried at fair value.

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The County has one directed investment trust fund invested in a certificate of deposit. The directed investment fund is carried at fair value.

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

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

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

Investment Income

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

Condensed statements of investments pools

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

Statement of Net Position

Net position held in trust for all pool participants:

| | |
|--------------------------------------|----------------------|
| Equity of internal pool participants | \$ 10,938,637 |
| Equity of external pool participants | 14,560,426 |
| Total equity | <u>\$ 25,499,063</u> |

Condensed Statement of Changes in Net Position

| | <u>External</u> | <u>Internal</u> |
|-----------------------------------|----------------------|----------------------|
| Investment earnings | \$ 108,882 | \$ 81,525 |
| Contributions to trust | 18,288,312 | 12,090,996 |
| Distributions paid | <u>(13,846,306)</u> | <u>(13,463,227)</u> |
| Net change in net assets | \$ 4,550,888 | \$ (1,290,706) |
| Net position at beginning of year | 10,009,538 | 12,229,343 |
| Net position at end of year | <u>\$ 14,560,426</u> | <u>\$ 10,938,637</u> |

Cash equivalents

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

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NOTE 3. RESTRICTED CASH/INVESTMENTS

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

| <u>Description</u> | <u>Amount</u> |
|-------------------------------|---------------------|
| Landfill Closure/Post Closure | <u>\$ 1,032,968</u> |

NOTE 4. RECEIVABLES

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

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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

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

NOTE 5. INVENTORIES

The cost of inventories are recorded as an expenditure when consumed; therefore the inventory asset amount is not available for appropriation. The County used the First in, First Out method for inventory.

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NOTE 6. CAPITAL ASSETS

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

| | |
|----------------|---------------|
| Buildings | 50 years |
| Improvements | 10 – 20 years |
| Equipment | 5 – 10 years |
| Infrastructure | 7 – 30 years |

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets:

Governmental activities:

| | Balance <u>July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | Restatements/ <u>Transfer</u> | Balance <u>June 30, 2014</u> |
|---|--------------------------------|----------------------------|---------------------------|----------------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 2,413,386 | \$ - | \$ - | \$ - | \$ 2,413,386 |
| Construction in progress | 9,248,608 | 4,016,072 | - | (41,165) | 13,223,515 |
| Total capital assets not being depreciated | <u>\$ 11,661,994</u> | <u>\$ 4,016,072</u> | <u>-</u> | <u>\$ (41,165)</u> | <u>\$ 15,636,901</u> |
| Other capital assets: | | | | | |
| Buildings | \$ 4,679,583 | \$ - | \$ - | \$ - | \$ 4,679,583 |
| Improvements other than buildings | 578,165 | - | - | - | 578,165 |
| Machinery and equipment | 7,139,643 | 417,901 | (79,839) | - | 7,477,705 |
| Infrastructure | 2,639,231 | 185,273 | - | 139,494 | 2,963,998 |
| Total other capital assets at historical cost | <u>\$ 15,036,622</u> | <u>\$ 603,174</u> | <u>\$ (79,839)</u> | <u>\$ 139,494</u> | <u>\$ 15,699,451</u> |
| Less: accumulated depreciation | <u>\$ (8,464,301)</u> | <u>\$ (745,410)</u> | <u>67,795</u> | <u>\$ -</u> | <u>\$ (9,141,916)</u> |
| Total | <u><u>\$ 18,234,315</u></u> | <u><u>\$ 3,873,836</u></u> | <u><u>\$ (12,044)</u></u> | <u><u>\$ 98,329</u></u> | <u><u>\$ 22,194,436</u></u> |

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Governmental activities depreciation expense was charged to functions as follows:

| | |
|--|-------------------|
| Governmental Activities: | |
| General government | \$ 114,099 |
| Public safety | 263,071 |
| Public works | 292,279 |
| Public health | 14,604 |
| Culture and recreation | 14,022 |
| Miscellaneous | <u>47,335</u> |
| Total governmental activities depreciation expense | <u>\$ 745,410</u> |

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

Business-type activities:

| | Balance <u>July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2014</u> |
|---|--------------------------------|---------------------|---------------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 723,735 | \$ - | \$ - | \$ 723,735 |
| Construction in progress | 294,403 | - | - | 294,403 |
| Total capital assets not being depreciated | <u>\$ 1,018,138</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,018,138</u> |
| Other capital assets: | | | | |
| Buildings | \$ 3,463,553 | \$ | \$ | \$ 3,463,553 |
| Improvements other than buildings | 807,013 | | | 807,013 |
| Machinery and equipment | 2,868,571 | 68,500 | (108,190) | 2,828,881 |
| Infrastructure | 23,300 | | | 23,300 |
| Total other capital assets at historical cost | <u>\$ 7,162,437</u> | <u>\$ 68,500</u> | <u>\$ (108,190)</u> | <u>\$ 7,122,747</u> |
| Less: accumulated depreciation | <u>\$ (3,300,079)</u> | <u>\$ (285,322)</u> | <u>\$ 96,141</u> | <u>\$ (3,489,260)</u> |
| Total | <u>\$ 4,880,496</u> | <u>\$ (216,822)</u> | <u>\$ (12,049)</u> | <u>\$ 4,651,625</u> |

NOTE 7. LONG TERM DEBT OBLIGATIONS

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

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

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

LAKE COUNTY, MONTANA
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Governmental Activities:

| | Balance July 1, 2013 | Additions | Deletions/ Restatements | Balance June 30, 2014 | Due Within One Year |
|------------------------------------|-------------------------|-------------------|----------------------------|--------------------------|------------------------|
| Special assessment bond | \$ 106,562 | \$ 41,450 | \$ (9,415) | \$ 138,597 | \$ 28,977 |
| Loans/Contracted debt | 652,593 | 132,178 | (162,365) | 622,406 | 104,524 |
| Compensated absences | 740,963 | 31,160 | - | 772,123 | 535,699 |
| Intercap loans | - | 365,022 | - | 365,022 | 120,475 |
| Capital leases | 34,948 | - | (18,008) | 16,940 | 12,128 |
| Advances | 316,000 | - | (63,200) | 252,800 | 62,391 |
| Other post-employment benefits* | 372,636 | 92,281 | - | 464,917 | - |
| Total | <u>\$ 2,223,702</u> | <u>\$ 662,091</u> | <u>\$ (252,988)</u> | <u>\$ 2,632,805</u> | <u>\$ 864,194</u> |

*See Note 8

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

Business-type Activities:

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 | Due Within One Year |
|------------------------------------|-------------------------|-----------------|---------------------|--------------------------|------------------------|
| Loans/Contracted debt | \$ 20,834 | \$ - | \$ (10,417) | \$ 10,417 | \$ 10,417 |
| Compensated absences | 65,150 | 222 | - | 65,372 | 45,581 |
| Intercap loans | 107,169 | - | (107,169) | - | - |
| Landfill Closure & Postclosure | 1,007,080 | - | (107,856) | 899,224 | - |
| Other post-employment benefits* | 46,056 | 9,127 | - | 55,183 | - |
| Total | <u>\$ 1,246,289</u> | <u>\$ 9,349</u> | <u>\$ (225,442)</u> | <u>\$ 1,030,196</u> | <u>\$ 55,998</u> |

*See Note 8

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. Rural special improvement districts bonds were issued with revolving fund backing. The County is obligated to levy and collect a general property tax on all taxable property in the Entity to provide additional funding for the debt service payments. The cash balance in the Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. Special assessment bonds outstanding as of June 30, 2014 were as follows:

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| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Bond Term</u> | <u>Maturity Date</u> | <u>Bonds Amount</u> | <u>Annual Payment</u> | <u>Balance June 30, 2014</u> |
|-------------------------|-------------------------|----------------------|------------------|----------------------|---------------------|-----------------------|------------------------------|
| Don "A" Lee Lane | 10/14/09 | 4.00% | 5 yrs | 7/15/14 | \$ 26,640 | Varies | \$ 4,928 |
| Miriam Way | 7/12/11 | 3.00% | 5 yrs | 7/15/16 | 50,577 | Varies | 30,347 |
| Old West Trail RID | 8/25/11 | 4.00% | 5 yrs | 8/25/16 | 21,483 | Varies | 11,550 |
| Allison Road RID | 4/30/13 | 4.00% | 5 yrs | 5/31/18 | 16,500 | \$ 2,560 | 13,200 |
| Watson/Allison Road RID | 2/19/13 | 4.00% | 5 yrs | 5/31/18 | 49,500 | 4,304 | 37,122 |
| Canal Road | 3/25/14 | 4.00% | 5 yrs | 7/15/19 | 41,450 | 8,290 | 41,450 |
| | | | | | <u>\$ 206,150</u> | | <u>\$ 138,597</u> |

Annual requirement to amortize debt:

| For Fiscal | | |
|-------------------|-------------------|------------------|
| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 28,977 | \$ 3,723 |
| 2016 | 32,340 | 4,119 |
| 2017 | 32,340 | 2,937 |
| 2018 | 18,374 | 1,694 |
| 2019 | 18,276 | 958 |
| 2020 | 8,290 | 248 |
| Total | <u>\$ 138,597</u> | <u>\$ 13,679</u> |

Loans/Contracted Debt

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

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Balance June 30, 2014</u> |
|--------------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|------------------------------|
| Fair Arena (1) | 06/02/11 | 4.00% | 6 yrs | 08/28/17 | \$ 28,405 | \$ 10,780 |
| Airport Loan (1) | 09/20/07 | 5.78% | 15 yrs | 09/20/22 | 240,278 | 169,157 |
| 2008 Tahoe Sheriff (1) | 08/30/07 | 4.79% | 6 yrs | 09/01/13 | 32,996 | 2,679 |
| S&R – Boat & Trailer (1) | 07/27/07 | 5.45% | 10 yrs | 06/01/17 | 145,000 | 2,272 |
| Scammon Gravel Pit (1) | 06/09/08 | 4.79% | 10 yrs | 06/01/18 | 325,000 | 151,366 |
| Swan S&R Building (1) | 01/26/09 | 4.50% | 6 yrs | 12/01/15 | 142,886 | 42,364 |
| Public Safety Loan (1) | 08/31/09 | 4.00% | 5 yrs | 06/01/14 | 70,000 | 210 |
| Ronan Airport | 02/28/10 | 1.625% | 10 yrs | 02/28/19 | 20,000 | 10,000 |
| St. Ignatius Airport (1) | 02/28/10 | 1.625% | 10 yrs | 02/28/19 | 12,500 | 6,250 |
| Asphalt Zipper (1) | 06/17/13 | 3.75% | 5 yrs | 06/17/18 | 152,990 | 95,150 |
| Freightliner (2) | 07/14/10 | 3.80% | 5 yrs | 07/14/15 | 50,351 | 10,417 |
| Ronan Airport (1) | 06/19/14 | 1.625% | 10 yrs | 02/28/24 | 7,178 | 7,178 |
| Phone System (1) | 02/10/14 | 2.500% | 5 yrs | 06/01/19 | 125,000 | 125,000 |
| Total | | | | | <u>\$ 1,352,584</u> | <u>\$ 632,823</u> |

(1) Reported in the governmental activities.

(2) Reported in business-type activities.

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

Annual requirement to amortize debt:

| For Fiscal <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|------------------|-----------------|
| 2015 | \$ 114,941 | \$ 22,207 |
| 2016 | 136,553 | 20,282 |
| 2017 | 121,295 | 14,742 |
| 2018 | 121,430 | 9,813 |
| 2019 | 52,712 | 6,234 |
| 2020 | 21,297 | 3,539 |
| 2021 | 22,518 | 2,307 |
| 2022 | 23,810 | 1,002 |
| 2023 | 17,550 | 995 |
| 2024 | 717 | 12 |
| Total | \$ 632,823 | \$ 81,133 |

Intercap Loans

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2014 were as follows:

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Balance June 30, 2014</u> |
|---------------------------|-----------------------------|--------------------------|-------------|--------------------------|-----------------------------|----------------------------------|
| Gravel Pit Settlement (1) | 12/20/13 | 1.00% | 3 yrs | 02/15/17 | 365,022 | \$ <u>365,022</u> |

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

| For Fiscal <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|------------------|-----------------|
| 2015 | \$ 120,475 | \$ 3,352 |
| 2016 | 121,673 | 2,140 |
| 2017 | 122,874 | 923 |
| Total | \$ 365,022 | \$ 6,415 |

Capital Leases

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

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

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest rate</u> | <u>Capitalized Original Cost</u> | <u>Remaining Payments as of June 30, 2014</u> |
|-----------------------|-----------------------------|--------------------------|--------------------------------------|---|
| Toshiba Printer Lease | 04/30/12 | 6.000% | \$ 12,450 | \$ 7,318 |
| Caterpillar Generator | 04/28/10 | 3.766% | 70,410 | <u>9,622</u> |
| | | | | <u>\$ 16,940</u> |

Reported in business-type activities.

Annual requirement to amortize debt:

| <u>For Fiscal Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|------------------|-----------------|
| 2015 | \$ 12,128 | \$ 952 |
| 2016 | 2,661 | 228 |
| 2017 | <u>2,151</u> | <u>65</u> |
| Total | <u>\$ 16,940</u> | <u>\$ 1,245</u> |

Compensated Absences

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

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

During the year ended June 30, 2011, County elected to adopt the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45), which requires Lake County to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed annual required contribution (ARC) that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, County, under GASB No. 45, has recorded a liability of approximately \$520,100 for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying June 30, 2014 balance sheet. The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net assets for the year ended June 30, 2014 by approximately \$101,408.

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

Plan Description: County Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by Lake County. The Health Plan provides medical, prescription drug, and life insurance benefits for retirees and their spouses. The Health Plan’s actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy: The Board establishes, and may amend, the contribution requirements of members of the Health Plan. Early retirees pay 100% of the composite active, retiree, and COBRA rate, which varies by dependent coverage. Medicare retirees pay 100% of the Medicare rate, with an additional premium required for dependents.

For the fiscal year ended June 30, 2014, the County contributed an estimated \$6,916 to the Health Plan. The County’s contribution was entirely to fund “pay-as-you-go” costs under the Health Plan and not to prefund benefits. In addition, for the year ended June 30, 2014, members of the Health Plan who are currently receiving benefits contributed an estimated \$21,831.

Annual OPEB Cost and Net OPEB Obligation: The basis for the annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, we project will cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed ten years. The following displays the components of the annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the net OPEB obligation to the Health Plan for the year ended June 30, 2014:

| | |
|---|------------|
| Normal cost - Unit Credit Method | \$ 88,886 |
| Amortization of unfunded actuarial accrued liability (UAAL) at transition | \$ 34,663 |
| ARC | \$ 123,549 |
| Interest on net OPEB obligation | 942 |
| Annual OPEB cost (expense) | \$ 108,324 |
| Contributions made | (6,916) |
| Increase in net OPEB obligation | \$ 101,408 |
| Net OPEB obligation – beginning of year | 418,692 |
| Net OPEB obligation – end of year | \$ 520,100 |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follow:

| Fiscal Year | Annual | Percentage of Annual | Net OPEB |
|--------------|------------------|------------------------------|-------------------|
| <u>Ended</u> | <u>OPEB Cost</u> | <u>OPEB cost contributed</u> | <u>Obligation</u> |
| 6/30/2014 | \$ 108,324 | 6.4% | \$ 520,100 |

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

Funded Status and Funding Progress: The funded status of the Health Plan as of June 30, 2014 is as follows:

| | |
|--|--------------|
| Actuarial accrued liability (AAL) - Unit Credit | \$ 983,063 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | \$ 983,063 |
| Funded ratio (actuarial value of plan asset ÷ AAL) | 0.0% |
| Covered Payroll | \$ 6,848,357 |
| UAAL as a percentage of covered payroll | 14.4% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: The basis of projections of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by County and members of the Health Plan) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between Lake County and Members of the Health Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The June 30, 2014 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 0.30% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 8.0% for pre-Medicare medical/pharmacy to an ultimate rate of 4.3% after 55 years. For Medicare costs the initial annual healthcare cost trend rate is 6.0% to an ultimate rate of 4.3% after 5 years. All trend rates include a 3.0% inflation assumption. The UAAL at transition is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2014 was 26.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

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

NOTE 9. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that Lake County place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and postclosure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$899,224 reported as landfill closure and postclosure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 87.49% of the estimated capacity of the landfill.

The County is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and postclosure care costs by April 9, 1996. For the fiscal year ended June 30, 2014, Lake County demonstrated its ability to handle closure and postclosure care costs by depositing in the state trust fund.

NOTE 10. INTERFUND RECEIVABLES AND PAYABLES

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

| <u>Purpose</u> | Due to/from other funds: | | <u>Amount</u> |
|-------------------------------|---------------------------------------|--|-------------------|
| | <u>Receivable Fund</u> | <u>Payable Fund</u> | |
| Cash loan for operations | General – Major Governmental | Poor – Major Governmental | \$ 302,430 |
| Tiger Grant administration | General – Major Governmental | Tiger Grant – Major Governmental | 109,877 |
| Cash loan for operations | General – Major Governmental | Mental Health – Nonmajor Governmental | 66,750 |
| Interfund loan for operations | Airport – Nonmajor Governmental | Polson Airport Improvement – Nonmajor Governmental | 2,154 |
| Interfund loan for operations | Public Health – Nonmajor Governmental | WIC – Nonmajor Governmental | <u>15,636</u> |
| Total | | | <u>\$ 496,847</u> |

| <u>Purpose</u> | Advances to/from other funds: | | <u>Amount</u> |
|---------------------------------------|-------------------------------|--------------------------------|-------------------|
| | <u>Receivable Fund</u> | <u>Payable Fund</u> | |
| Gravel Crushing Equipment | Road – Major Governmental | Solid Waste – Major Enterprise | \$ 121,600 |
| Purchase additional Fair Grounds Land | General – Major Governmental | Solid Waste – Major Enterprise | <u>131,200</u> |
| Total | | | <u>\$ 252,800</u> |

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

Interfund Transfers

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

| <u>Purpose</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--|---|---|---------------|
| Cash for donations for operations | Aquatic Invasive Species – Nonmajor Governmental | General – Major Governmental | \$ 5,000 |
| Cash transfer for operations | Ambulance – Nonmajor Governmental | General – Major Governmental | 203 |
| Cash transfer for operations | Senior Citizens – Nonmajor Governmental | General – Major Governmental | 1,082 |
| Cash transfer for operations | PERS – Nonmajor Governmental | General – Major Governmental | 34,651 |
| Cash transfer for operations per request | Polson Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 30,000 |
| Cash transfer for operations per request | Ronan Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 15,000 |
| Cash transfer for operations per request | St Ignatius Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 5,000 |
| Cash transfer for operations | Polson Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 4,311 |
| Cash transfer for operations | St Ignatius Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 4,473 |
| Cash transfer for operations | Polson Airport – Nonmajor Governmental | Airport – Nonmajor Governmental | 260 |
| Cash transfer to close fund | Airport – Nonmajor Governmental | Ronan Airport – Nonmajor Governmental | 9,817 |
| Cash transfer for operations | Polson Airport Improvement – Nonmajor Governmental | AV/Jet Fuel – Nonmajor Governmental | 30,000 |
| Cash transfer for operations | Ronan Airport Improvement – Nonmajor Governmental | AV/Jet Fuel – Nonmajor Governmental | 24,000 |
| Cash transfer for operations | St Ignatius Airport Improvement – Nonmajor Governmental | AV/Jet Fuel – Nonmajor Governmental | 6,000 |
| Quarterly payment per agreement | Mental Health – Nonmajor Governmental | Public Safety – Major Governmental | 8,000 |
| Cash transfer for operations | Health Insurance – Nonmajor Governmental | Permissive Health Insurance – Nonmajor Governmental | 526,843 |
| Cash transfer for operations | General – Major Governmental | Court Ordered Levy – Nonmajor Governmental | 200,278 |
| Cash transfer for operations | Poor – Major Governmental | Court Ordered Levy – Nonmajor Governmental | 101,504 |
| Cash transfer for operations | District Court – Nonmajor Governmental | Court Ordered Levy – Nonmajor Governmental | 31,238 |

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

| | | | |
|-----------------------------|--|--|----------------------|
| Cash transfer to close fund | RID Revolving - Nonmajor Governmental | Cedar Hills RID – Nonmajor Governmental | 113 |
| Cash transfer to close fund | RID Revolving - Nonmajor Governmental | Riverside Terrace – Nonmajor Governmental | 259 |
| Cash transfer to close fund | RID Revolving - Nonmajor Governmental | Forman Rd – Nonmajor Governmental | 1,135 |
| Cash transfer to close fund | Kings Point Causeway Maintenance – Nonmajor Governmental | Kings Point Causeway Rd – Nonmajor Governmental | 477 |
| Semi annual admin fee | General – Major Governmental | Kings Point Causeway Maintenance – Nonmajor Governmental | 1,760 |
| Semi annual admin fee | General – Major Governmental | West Swan Shore Maintenance – Nonmajor Governmental | 930 |
| | | | <u>\$ 1,0425,334</u> |

NOTE 11. STATE-WIDE RETIREMENT PLANS

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

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

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

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

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

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

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

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

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

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

| | <u>PERS</u> | <u>SRS</u> | <u>TRS</u> |
|------|-------------|------------|------------|
| 2012 | \$ 315,824 | \$ 180,726 | \$ - |
| 2013 | \$ 288,163 | \$ 195,434 | \$ - |
| 2014 | \$ 314,128 | \$ 209,435 | \$ 2,234 |

NOTE 12. LOCAL RETIREMENT PLANS

Deferred Compensation Plan

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

NOTE 13. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

For committed fund balance the government's highest level of decision-making authority is by board action in the form of a resolution and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is by a resolution.

For assigned fund balance the body or official authorized to assign amounts to a specific purpose are the County Commissioners and the policy established by the governing body pursuant to which that authorization is given is by board minutes.

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

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

Nonspendable Fund Balance

| <u>Fund</u> | <u>Amount</u> | <u>Reason Nonspendable</u> |
|-------------|---------------|----------------------------|
| Bridge | \$ 72,945 | Inventories |

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

| | | |
|------|-------------------|-------------|
| Road | <u>580,488</u> | Inventories |
| | <u>\$ 653,433</u> | |

Restricted Fund Balance

| <u>Fund</u> | <u>Amount</u> | <u>Purpose of Restriction</u> |
|----------------------------|---------------------|-----------------------------------|
| Road | \$ 295,546 | Public Works |
| Public Safety | 388,770 | Public safety |
| Aggregate Remaining Funds: | | |
| | 374,482 | General Government |
| | 797,228 | Public Works |
| | 614,496 | Public Health |
| | 22,778 | Social and economic services |
| | 77,137 | Culture and recreation |
| | 29,074 | Housing and community development |
| | 993,007 | Public Safety |
| | <u>87,438</u> | Debt service |
| Total | <u>\$ 3,679,956</u> | |

NOTE 14. DEFICIT FUND BALANCES/NET POSITION

| <u>Fund Name</u> | <u>Amount</u> | <u>Reason for Deficit</u> | <u>How Deficit will be Eliminated</u> |
|----------------------------|---------------|---------------------------|---------------------------------------|
| Poor Fund | \$ 308,550 | Overspent available cash | Tax revenues |
| WIC | \$ 1,992 | Overspent available cash | Tax revenues |
| Polson Airport Improvement | \$ 2,155 | Overspent available cash | Tax revenues |

NOTE 15. RESTATEMENTS

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

| <u>Fund</u> | <u>Amount</u> | <u>Reason for Adjustment</u> |
|-------------------------------|-------------------|--|
| General | \$ 3,815 | Restate deposits payable for developer deposits |
| Road | 156,232 | Adjust inventory balance and receivable balances |
| Public Safety Mill Levy Voted | (144,870) | GASB 54 adjust of fund balance |
| Public Safety | 144,870 | GASB 54 adjust of fund balance |
| Bridge | 72,945 | Establish inventory balance |
| ARRA – Tiger Grant | 17,689 | Prior period payable error |
| Governmental activities | 98,329 | Capital asset restatement |
| Governmental activities | <u>(15,400)</u> | Long term debt restatement for RID |
| | <u>\$ 333,610</u> | |

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

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

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

NOTE 17. RISK MANAGEMENT

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

Insurance Policies:

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

Insurance Pools:

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

The County's share of assets, liability, and changes in net position is not available.

Audited financial statements for the fiscal year ended September 30, 2014, are available from the Montana Association of Counties Joint Powers Insurance Trust.

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

NOTE 18. PENDING LITIGATION

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney has made no evaluation as to the outcome of each case.

| <u>Case</u> | <u>Damages Requested</u> | <u>Potential of Loss</u> |
|--|----------------------------|--------------------------|
| <i>Lake County Courthouse Employees & Mary Asper</i> | Back Pay and reinstatement | Not determined |

NOTE 19. SUBSEQUENT EVENTS

The County expended the majority of its cash reserves in the Public Safety Fund reducing the fund balance in 2014. To support the operations in the fiscal year 2015, cash from the General Fund was used to help cover expenditures. The budgeted expenditures and revenues for 2015 will net to zero, not creating any additional cash reserves. The County doesn't anticipate carrying any cash reserves in the near future.

**REQUIRED SUPPLEMENTAL
INFORMATION**

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

| | General | | | |
|---|-------------------------|---------------------|---|------------------------------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
| | ORIGINAL | FINAL | AMOUNTS (BUDGETARY BASIS) See Note A | WITH FINAL BUDGET |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | \$ 1,908,333 | \$ 1,908,333 | \$ 1,935,448 | \$ 27,115 |
| Licenses and permits | 8,650 | 8,650 | 8,915 | 265 |
| Intergovernmental | 728,493 | 728,493 | 774,289 | 45,796 |
| Charges for services | 347,288 | 347,288 | 339,790 | (7,498) |
| Fines and forfeitures | 109,300 | 109,300 | 92,345 | (16,955) |
| Miscellaneous | 35,100 | 35,100 | 26,648 | (8,452) |
| Investment earnings | 64,900 | 64,900 | 70,824 | 5,924 |
| Amounts available for appropriation | <u>\$ 3,202,064</u> | <u>\$ 3,202,064</u> | <u>\$ 3,248,259</u> | <u>\$ 46,195</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| General government | \$ 3,204,328 | \$ 3,204,328 | \$ 2,365,236 | \$ 839,092 |
| Public safety | 63,490 | 63,490 | 62,608 | 882 |
| Public works | - | - | 162 | (162) |
| Public health | 3,364 | 3,364 | - | 3,364 |
| Social and economic services | 16,000 | 16,000 | 13,250 | 2,750 |
| Debt service - principal | 72,378 | 72,378 | 2,360 | 70,018 |
| Debt service - interest | - | - | 2,926 | (2,926) |
| Internal services | 276,719 | 276,719 | 254,861 | 21,858 |
| Miscellaneous | 4,100 | 4,100 | 6,231 | (2,131) |
| Capital outlay | 311,395 | 311,395 | 411,025 | (99,630) |
| Total charges to appropriations | <u>\$ 3,951,774</u> | <u>\$ 3,951,774</u> | <u>\$ 3,118,659</u> | <u>\$ 833,115</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of general long term debt | \$ - | \$ 365,022 | \$ 490,022 | \$ 125,000 |
| Other financing use (expenditure) | - | (365,022) | - | 365,022 |
| Transfers in | - | - | 202,968 | 202,968 |
| Transfers out | (35,000) | (35,000) | (40,936) | (5,936) |
| Total other financing sources (uses) | <u>\$ (35,000)</u> | <u>\$ (35,000)</u> | <u>\$ 652,054</u> | <u>\$ 687,054</u> |
| Net change in fund balance | | | <u>\$ 781,654</u> | |
| Fund balance - beginning of the year | | | \$ 2,546,614 | |
| Restatements | | | <u>3,815</u> | |
| Fund balance - beginning of the year - restated | | | <u>\$ 2,550,429</u> | |
| Fund balance - end of the year | | | <u><u>\$ 3,332,083</u></u> | |

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

| | Road | | | |
|---|-------------------------|---------------------|---|------------------------------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
| | ORIGINAL | FINAL | AMOUNTS (BUDGETARY BASIS) See Note A | WITH FINAL BUDGET |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | \$ 1,377,229 | \$ 1,377,870 | \$ 1,331,082 | \$ (46,788) |
| Licenses and permits | - | - | - | - |
| Intergovernmental | 318,704 | 318,704 | 317,757 | (947) |
| Charges for services | 3,000 | 3,000 | 133,207 | 130,207 |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous | 200 | 200 | 35,000 | 34,800 |
| Investment earnings | - | - | 5 | 5 |
| Amounts available for appropriation | <u>\$ 1,699,133</u> | <u>\$ 1,699,774</u> | <u>\$ 1,817,051</u> | <u>\$ 117,277</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| General government | \$ - | \$ - | \$ - | \$ - |
| Public safety | - | - | - | - |
| Public works | 1,423,277 | 1,423,277 | 1,491,480 | (68,203) |
| Public health | - | - | - | - |
| Social and economic services | - | - | - | - |
| Debt service - principal | 90,422 | 90,422 | 105,649 | (15,227) |
| Debt service - interest | - | - | 22,999 | (22,999) |
| Internal services | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Capital outlay | 203,200 | 203,200 | 63,585 | 139,615 |
| Total charges to appropriations | <u>\$ 1,716,899</u> | <u>\$ 1,716,899</u> | <u>\$ 1,683,713</u> | <u>\$ 33,186</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of general long term debt | \$ - | \$ - | \$ - | \$ - |
| Other financing use (expenditure) | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net change in fund balance | | | <u>\$ 133,338</u> | |
| Fund balance - beginning of the year | | | \$ 586,464 | |
| Restatements | | | <u>156,232</u> | |
| Fund balance - beginning of the year - restated | | | <u>742,696</u> | |
| Fund balance - end of the year | | | <u><u>\$ 876,034</u></u> | |

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

| | Poor | | | |
|---|-------------------------|-------------------|---|------------------------------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
| | ORIGINAL | FINAL | AMOUNTS (BUDGETARY BASIS) See Note A | WITH FINAL BUDGET |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | \$ 105,756 | \$ 106,252 | \$ 103,519 | \$ (2,733) |
| Licenses and permits | - | - | - | - |
| Intergovernmental | 8,748 | 175,774 | 9,357 | (166,417) |
| Charges for services | - | - | - | - |
| Fines and forfeitures | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Investment earnings | - | - | - | - |
| Amounts available for appropriation | <u>\$ 114,504</u> | <u>\$ 282,026</u> | <u>\$ 112,876</u> | <u>\$ (169,150)</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| General government | \$ - | \$ - | \$ - | \$ - |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Public health | - | - | - | - |
| Social and economic services | 115,000 | 282,026 | 282,025 | 1 |
| Debt service - principal | - | - | - | - |
| Debt service - interest | - | - | - | - |
| Internal services | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total charges to appropriations | <u>\$ 115,000</u> | <u>\$ 282,026</u> | <u>\$ 282,025</u> | <u>\$ 1</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of general long term debt | \$ - | \$ - | \$ - | \$ - |
| Other financing use (expenditure) | - | - | - | - |
| Transfers in | - | - | 101,504 | 101,504 |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 101,504</u> | <u>\$ 101,504</u> |
| Net change in fund balance | | | <u>\$ (67,645)</u> | |
| Fund balance - beginning of the year | | | \$ (240,905) | |
| Restatements | | | - | |
| Fund balance - beginning of the year - restated | | | <u>\$ (240,905)</u> | |
| Fund balance - end of the year | | | <u><u>\$ (308,550)</u></u> | |

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

| | Public Safety | | | |
|---|-------------------------|---------------------|--------------------------|--------------------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
| | ORIGINAL | FINAL | (BUDGETARY | WITH FINAL |
| | | | BASIS) See Note A | BUDGET |
| RESOURCES (INFLOWS): | | | | |
| Taxes and assessments | 3,398,158 | \$ 3,404,226 | \$ 3,325,645 | \$ (78,581) |
| Licenses and permits | 7,000 | 7,000 | 10,949 | 3,949 |
| Intergovernmental | 135,516 | 175,331 | 152,306 | (23,025) |
| Charges for services | 266,500 | 266,500 | 268,388 | 1,888 |
| Fines and forfeitures | 5,000 | 5,000 | 4,869 | (131) |
| Miscellaneous | - | - | - | - |
| Investment earnings | - | - | 11 | 11 |
| Amounts available for appropriation | <u>3,812,174</u> | <u>\$ 3,858,057</u> | <u>\$ 3,762,168</u> | <u>\$ (95,889)</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| General government | - | \$ - | \$ - | \$ - |
| Public safety | 4,011,307 | 4,051,122 | 3,901,692 | 149,430 |
| Public works | - | - | - | - |
| Public health | - | - | - | - |
| Social and economic services | - | - | - | - |
| Debt service - principal | 19,662 | 19,662 | 15,030 | 4,632 |
| Debt service - interest | 2,126 | 2,126 | 300 | 1,826 |
| Internal services | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Capital outlay | 35,000 | 35,000 | 79,765 | (44,765) |
| Total charges to appropriations | <u>4,068,095</u> | <u>\$ 4,107,910</u> | <u>\$ 3,996,787</u> | <u>\$ 111,123</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of general long term debt | - | \$ - | \$ - | \$ - |
| Other financing use (expenditure) | - | - | - | - |
| Transfers in | 591,620 | 591,620 | - | (591,620) |
| Transfers out | (610,876) | (610,876) | (8,000) | 602,876 |
| Total other financing sources (uses) | <u>(19,256)</u> | <u>\$ (19,256)</u> | <u>\$ (8,000)</u> | <u>\$ 11,256</u> |
| Net change in fund balance | | | <u>\$ (242,619)</u> | |
| Fund balance - beginning of the year | | | \$ 486,519 | |
| Restatements | | | 144,870 | |
| Fund balance - beginning of the year - restated | | | <u>\$ 631,389</u> | |
| Fund balance - end of the year | | | <u><u>\$ 388,770</u></u> | |

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/(c)) |
|-----------------------------|-------------------------------------|---|------------------------------------|--------------------------|---------------------------|---|
| July 1, 2011 | \$ - | \$ 962,091 | \$ 961,091 | 0% | \$ 9,303,798 | 10.3% |
| July 1, 2014 | \$ - | \$ 983,063 | \$ 983,063 | 0% | \$ 6,848,357 | 14.4% |

SINGLE AUDIT SECTION

Lake County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditure June 30, 2014 |
|--|------------------------------------|--|--|
| <u>U.S. Department of Agriculture</u> | | | |
| <i>Passed through Montana Department of Agriculture:</i> | | | |
| Specialty Crop Block Grant Program - Farm Bill | 10.170 | N/A | \$ 8,500 |
| <i>Passed through Montana Department of Health and Human Services:</i> | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 13-07-5-21-011-0 | 24,704 |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 14-07-5-21-001-0 | 62,851 |
| <i>Passed through Montana Department of Natural Resources and Conservation:</i> | | | |
| Cooperative Forestry Assistance | 10.664 | 13-DG-11010000-002 | 5,000 |
| Cooperative Forestry Assistance Grant - Forest Health | 10.664 | WSF-12-004 | 43,111 |
| <i>Passed through Montana Department of Administration:</i> | | | |
| Schools and Roads - Grants to States | 10.665 | N/A | 21,580 |
| Schools and Roads - Grants to States | 10.665 | N/A | 16,280 |
| Total U.S. Department of Agriculture | | | \$ 182,026 |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| <i>Passed through Montana Department of Commerce:</i> | | | |
| Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | MT-CDBG-ED10-02 | \$ 3,099 |
| Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | MT-NSP-12-011-01-001 | 118,663 |
| Total U.S. Department of Housing and Urban Development | | | \$ 121,762 |
| <u>U.S. Department of Justice</u> | | | |
| <i>Passed through Montana Bureau of Justice Assistance:</i> | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2013-DJ-BX-0993 | \$ 13,470 |
| <u>U.S. Department of Transportation</u> | | | |
| <i>Direct:</i> | | | |
| Airport Improvement Program | 20.106 | 3-30-0061-005-2013 | \$ 62,413 |
| Airport Improvement Program | 20.106 | 3-30-0065-010-2013 | 92,610 |
| Highway Planning and Construction | 20.205 | N/A | 150,020 |
| Highway Planning and Construction | 20.205 | N/A | 171,096 |
| TIGER Grants Transportation Investment Generating Economic Recovery - ARRA | 20.932 | DRFH61-10-G-00002 | 3,491,735 |
| <i>Passed through Montana Sheriffs and Peace Officers Association:</i> | | | |
| State and Community Highway Safety | 20.600 | N/A | 4,492 |
| <i>Passed through Montana Department of Transportation</i> | | | |
| State and Community Highway Safety | 20.600 | 106701 | 6,697 |
| State and Community Highway Safety | 20.600 | 107255 | 17,342 |
| Total U.S. Department of Transportation | | | \$ 3,996,405 |
| <u>U.S. Department of Health and Human Services</u> | | | |
| <i>Passed through Montana Department of Public Health and Human Services:</i> | | | |
| Public Health Emergency Preparedness | 93.069 | 14-07-6-11-027-0 | \$ 43,365 |
| Family Planning Services | 93.217 | 13-07-5-11-012-0 | 37,340 |
| Immunization Cooperative Agreements | 93.268 | 13-07-4-31-122-0 | 5,694 |
| Immunization Cooperative Agreements | 93.268 | 14-07-4-31-122-0 | 5,694 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 14-07-3-31-0080 | 59,773 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 13-07-5-31-031-0 | 34,744 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 13-07-5-01-061-0 | 115,980 |
| PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds | 93.539 | 14-07-4-31-165-0 | 7,950 |
| Maternal Health and Child Health Services Block Grant to States | 93.994 | N/A | 812 |
| Maternal Health and Child Health Services Block Grant to States | 93.994 | 14-07-5-01-024-0 | 28,806 |
| Maternal Health and Child Health Services Block Grant to States | 93.994 | 12-07-5-31-010-0 | 140 |
| Total U.S. Department of Transportation | | | \$ 340,298 |
| Total Federal Financial Assistance | | | \$ 4,653,961 |

N/A = Not Applicable or Not Available

LAKE COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

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

Board of Commissioners
Lake County
Polson, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lake County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lake County's basic financial statements and have issued our report thereon dated March 10, 2015.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as item 2014-1.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as identified as item 2014-2.

Compliance and Other Matters

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

Lake County's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

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

March 10, 2015

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

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

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

Board of Commissioners
Lake County
Polson, Montana

Report on Compliance for Each Major Federal Program

We have audited Lake County, Montana's, compliance 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 Lake County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2014-3 and 2014-4 that we consider to be significant deficiencies.

Lake County, Montana's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lake County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

March 10, 2015

LAKE COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|--|-------------------|
| Type of auditor’s report issued | <i>Unmodified</i> |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes |
| Significant deficiency(s) identified not considered to be material weaknesses | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|-------------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(s) identified | Yes |
| Type of auditor’s report issued on compliance for major programs: | <i>Unmodified</i> |
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? | Yes |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 20.205 | Highway Planning and Construction |
| 20.932 | ARRA-Transportation Investment Generating Economic Recovery |

| | |
|---|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 300,000</u> |
| Auditee qualified as low-risk auditee? | No |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

2014-1 Deficit Fund Balances

Condition:

During our audit we noted the following funds with deficit balances:

1. Poor (\$308,550)

Context: We noted the finding in prior years. During substantive testing of the deficit fund balances, we found that the Poor Fund's fund balance continued to be a deficit.

Criteria:

Internal control procedures require that fund balances be reviewed on a timely basis to ensure there are adequate resources available to cover expenses that may arise.

Effect:

Significant deficiencies in fund balances above, totaling (\$308,550).

Cause:

Inadequate monitoring of balances prior to expenditure of funds. This was also a problem in the previous fiscal years.

Recommendation:

Fund balances should be reviewed on a regular basis to ensure that there are adequate resources available to cover expenses that may arise.

Views of Responsible Officials and Planned Corrective Action:

We will review the balances regularly to ensure there are resources available to cover the expenses.

2014-2 Sheriff's Office Internal Controls

Condition:

During our audit, we noted the following internal control weaknesses in the Sheriff's Office:

1. The Inmate account remains to be unbalanced at June 30, 2014
2. Only one person is responsible for all cash receipting duties related to the Commissary Account.

Context: We noted that internal control deficiencies were a finding in the prior year. During the tests of internal controls of the Inmate and Commissary Accounts, we found that the County was unable to reconcile the Inmate account and there was still segregation of duties deficiency in receipting.

Criteria:

1. A good internal control system should ensure that all trust fund records are balanced and agree to their respective subsidiary ledgers.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2. A good internal control system helps to reduce the risk of fraud, through segregation of duties.

Effect:

1. The Inmate account is unbalanced at June 30, 2014
2. The control system over the handling of cash for the Commissary Account is weakened.

Cause:

1. The Inmate account is consistently out of balance by a small amount. The past balances have not been resolved.
2. This is a small office where segregation of duties is cost-prohibitive.

Recommendation:

1. The Sheriff's Office should implement a system to ensure that the Inmate Account is being reconciled properly.
2. We recommend that the County should strive to segregate cash receiving functions by having another person involved in the cash receiving process.

Views of Responsible Officials and Planned Corrective Action:

We will work with the Sherriff's office to reconcile the Inmate and Commissary accounts in FY15. Our Finance Officer will meet with the Administrative Assistant to review the transactions.

Section III – Federal Award Findings and Questioned Costs

2014-3 Grant Accounting for CTEP

CFDA Title: Community Transportation Enhancement Program

CFDA Number: 20.205

Federal Award Number: STPE 24(41), (42), (44)

Federal Agency: U.S. Department of Transportation

Pass-through Entity: Montana Department of Transportation

Condition:

Expenditures for grants were noted as paid from incorrect funds. The match required for the projects was not transferred into the CTEP fund.

Context:

We noted the county had two CTEP projects in progress during the fiscal year ended June 30, 2014.

The Arlee- Jocko project match was not transferred in from the general fund. A local non-profit entity had committed to providing the match and the county had recorded a receivable for the match. However, the match had not been received as of December 15, 2014 from this local entity.

The Caffrey road project match was not transferred in from the general fund. In addition, expenditures for the CTEP project were paid in error from the Tiger Grant fund. The County had a contract amendment which required changes to the allocation of funding for the project. Once this funding change was approved, the change in coding of the expenditures was not completed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Criteria:

Internal control procedures should be in place to ensure the grants are accounted for in the proper funds including the required match.

Effect:

Expenditures for the Caffrey Road project were coded to the Tiger Grant in error in the amount of \$56,352.

County Match was not transferred to the CTEP fund in the amount of \$23,991 for the Arlee-Jocko project and \$30,524 for the Caffrey Road project.

Cause:

A lack of internal control regarding the financial management of the projects.

Recommendation:

The County should implement procedures within the accounting function to ensure all match and expenditures are recorded in the proper funds.

Views of Responsible Officials and Planned Corrective Action:

Additional monitoring will be set in place to assure coding into correct funds.

2014-4 Administrative Expenditures for Tiger grant

Federal Program: Transportation Investment Generating Economic Recovery

CFDA Title: Transportation Investment generating Economic Recovery

CFDA Number: 20.932

Federal Award Number and Year: DTFH61—10-G-00002

Name of Federal Agency: U. S. Department of Transportation

Name of Pass-through Entity: Direct

Condition:

The administrative expenditures the county incurred related to the Tiger grant were paid from the General fund in error.

Context:

The Tiger grant was completed by March 2014. A cash balance remained in the fund. Review of the activity indicated the county administrative expenditures were coded to the general fund in error.

Criteria:

All expenditures related to the grant should be accounted for in the grant fund.

Effect:

Expenditures were overstated in the general fund and understated in the Tiger grant fund \$109,877.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Cause:

An error in the accounting setup of the individuals working the administration of the grant.

Recommendation:

The county should implement control procedures to ensure all expenditures related to grants are properly accounted for in the grant fund.

Views of Responsible Officials and Planned Corrective Action:

Additional monitoring will be set in place to assure coding is into correct funds.

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

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Commissioners
Lake County
Polson, Montana

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

| <u>Recommendation</u> | <u>Action Taken</u> |
|--|---------------------|
| Deficit Fund Balances | Repeated |
| Sheriff's Department Internal Controls | Repeated |
| District Court Internal Controls | Implemented |
| Sub recipient Monitoring | Implemented |

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

March 10, 2015