

MADISON COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

MADISON COUNTY, MONTANA

Fiscal year Ended June 30, 2014

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-10
Independent Auditor’s Report	11-13
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	14
Statement of Activities	15
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position – Proprietary Fund Types	20
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Types	21
Statement of Cash Flows – Proprietary Fund Types	22
Statement of Net Position – Fiduciary Fund Types	23
Statement of Changes in Net Position – Fiduciary Fund Types	24
Notes to Financial Statements	25-48
Required Supplemental Information	
Budgetary Comparison Schedule	49-50
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	51
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	52
Single Audit Section	
Schedule of Expenditures of Federal Awards	53
Notes to the Schedule of Expenditures of Federal Awards	54
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	55-56

MADISON COUNTY, MONTANA

TABLE OF CONTENTS – Continued

Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	57-58
Schedule of Findings and Questioned Costs	59-63

MADISON COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Jim Hart	Chairperson
Dan Happel	Commissioner
David Schultz	Commissioner

COUNTY OFFICIALS

Chris Christensen	County Attorney
Shelly Burke	Treasurer
Peggy Kaatz Stemler	Clerk and Recorder / Auditor
Bundy Baily	Clerk of District Clerk
Mary Ann O'Mally Tucker	Justice of the Peace
Melinda Legg	School Superintendent
Dave Schenk	Sheriff
Victoria Tilstra	Finance Director

MADISON COUNTY

MANAGEMENT'S DISCUSSION & ANALYSIS-JUNE 30, 2014

In 1999 the Governmental Accounting Standards Board (GASB), issued a new accounting standard that essentially revised the form of governmental entities' financial statements. Madison County started implementing the new financial report fiscal year ending June 30, 2004. Fiscal year 2014 will be Madison County's eleventh management's discussion and analysis. Comparisons will be made between fiscal year 2013 and 2014 and from thence forth.

The following discussion and analysis of Madison County's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2014. Reading this narrative in conjunction with the governing body's financial statement should give you a complete overview of the activities and financial status of Madison County.

Financial Highlights

- Madison County's assets exceeded its liabilities, total net position equal \$27,125,958. Of this amount, \$3,159,441 may be used to meet the county's on going operational needs. \$13,995,273 is net invested in capital assets.
- As of June 30, 2014, Madison County's governmental funds reported combined ending fund balance of \$14,536,244 an increase of 1,650,110 from fiscal year 13.
- County Governmental restricted balance is \$9,971.244.
- Madison County reported \$8,907,701 in total liabilities this debt includes bond payments for Rural Special Improvement Districts and compensated absence liability, OPEB liability and TRMCC construction debt.
- The County's governmental net position for fiscal year 2014 were \$26,038,673 an increase from fiscal year 2013. Business-type net position were \$1,087,285 a decrease from fiscal year 2013.

Using this Financial Report

The management's discussion and analysis is intended to serve as an introduction to Madison County's financial statements. This annual report consists of financial statements for the County as a whole, with more detailed information for certain funds, reported as "*Major Funds*": **General Fund, Road Fund, RSID 2009 Ousel Falls Debt fund.** Of the *business-type* funds, **Ennis Nursing Home, Sheridan Nursing Home** are reported as major funds. The financial section of the report contains the following components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements
4. Required Supplemental Information
5. Other Supplemental Information

Government-Wide Financial Statements

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

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

The *statement of activities* presents information showing how Madison County's net position changed during the most recent fiscal year. Both the statement of net position and the statement of activities use the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid, thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (ex. Uncollected taxes, earned but unused vacation leave).

Both of the above government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities of Madison County include general governmental, public safety, public works (road, bridge, weed etc.), public health, social and economic services (aging services), and culture and recreation (library, fair). Business-type activities of Madison County include Nursing Homes and Solid Waste fund.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the County as a whole. Funds are set up to manage resources that have been segregated for specific activities or objectives. Some funds are required to be set up by state law other funds are established by the County to help manage funding and expenses for specific purposes. All of the County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds

Governmental Funds

Most of the County's services are reported in governmental funds. The governmental funds statements provide a detailed short-term view to cash, the fund operations, and the basic services it provides.

Proprietary Funds

When the County charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds

All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. Fiduciary (Trust and Agency) activities are excluded from the county's other financial statements because the County cannot use these assets to finance its operations, but is responsible for insuring that the assets reported in these funds are used for their intended purpose.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided, including pending lawsuits involving Madison County.

Required and Other Supplemental Information

This section provides detailed information concerning revenues, expenditures and changes in fund balances, comparing budget to actual. The supplemental information also includes a schedule of grants, and a schedule of cash receipts and disbursements, along with a reconciliation of all of the County's cash.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

Combined net position of Madison County at June 30, 2014 were:

	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Govnmt FY 13
Current and other assets	18,259,519	1,589,445	19,848,964	18,823,864
Capital Assets	13,048,989	3,135,706	16,184,695	15,884,209
Total Assets	31,308,508	4,725,151	36,033,659	34,708,073
Current Liabilities	638,878	253,007	891,885	829,612
Non Current Liabilities	4,630,957	3,384,859	8,015,816	8,022,440
Total Liabilities	5,269,835	3,637,866	8,907,701	8,852,052
Net Position				
Net invested in capital assets	11,888,989	2,106,284	13,995,273	13,260,069
Restricted	10,055,047		9,971,244	9,365,620
Unrestricted	4,094,637	(1,018,999)	3,159,441	3,230,332
Total Net Position	26,038,673	1,087,285	27,125,958	25,856,021

Changes in Net Position

Madison County's total revenues of \$18.8 million was greater than program expenses of \$17.5 million for a **increase** in net position of \$1.2 million. See prior year comparison below.

This is the eighth year to report all activities on the accrual basis of accounting. A comparison of prior year is included.

	Governmental Activities Fiscal Yr 2014	Business- type Activities Fiscal Yr 2014	Total Primary Government Fiscal Yr 2014	Total Primary Government Fiscal Yr 2013
Revenues:				
Program Revenues				
Charges for Services	1,913,340	4,595,693	6,509,033	6,603,373
Operating Grants & Contributions	1,136,192	0	1,136,192	764,166
Capital grants & Contributions	440,081	0	440,081	128,404
General revenues				
Property taxes	8,902,054	514	8,902,568	8,139,124
Personal property tax reimbursement	0			
Miscellaneous/Contributions	131,488	129,941	261,429	103,632
Interest/Investment earnings	27,059	700	27,759	43,076
PILT/Gas Tax	735,234		735,234	656,474
State entitlement	681,563		681,563	615,880
Montana oil & gas production tax	0		0	116,934
Contributions/Donations	150,194	1,580	151,774	2,214
Gain/loss on sale of fixed asset	0	0	0	43,423
Transfers-net	-1,818,287	1,818,287		
Total Revenues	12,298,918	6,546,715	18,845,633	17,216,700
Program expenses				
General government	2,582,347		2,582,347	2,951,485
Public Safety	2,423,996		2,423,996	2,266,715
Public Works	3,993,034		3,993,034	4,145,896
Public Health	354,907		354,907	400,639
Social & economic services	212,456		212,456	201,470
Culture & Recreation	439,146		439,146	262,359
Housing & Community Dev	262,693		262,693	174,138
Debt service-interest	194,981		194,981	221,352
Miscellaneous	214,566		214,566	189,911
Ennis Nursing Home		2,884,960	2,884,960	2,842,820
Sheridan Nursing Home		3,139,053	3,139,053	3,532,763
Solid Waste		879,997	879,997	861,301
Total Expenses	10,678,126	6,904,010	17,582,136	18,041,252
Change in net position	1,620,792	-357,295	1,263,497	-824,552

Governmental Activities

The cost of all Madison County's governmental activities for the year ending June 30, 2014 was \$10,678,126. The largest portion of that expense is for:

Public Works	\$3,993,034
General Government	\$2,582,347
Public Safety	\$2,423,996

Madison County taxpayers contributed \$8,902,054 to fund the \$10,678,126 in expenses. The balance was funded through program revenues, PILT, state entitlement, subsidized governmental programs and investment earnings. The change in governmental activities net assets for fiscal year 14 is \$1,620,792. This is an **increase** from the prior year.

Each program's net cost (total cost less revenues generated by the activity) is presented below. The net cost shows the financial burden that was placed on the county's taxpayers by each of these functions:

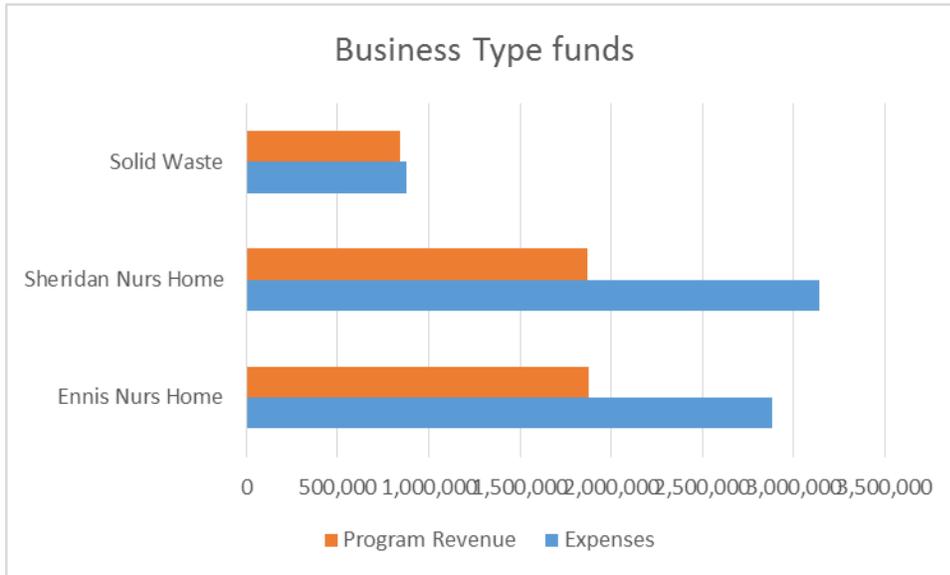
<u>Governmental Activities</u>	<u>FY 13 Net Cost</u>	<u>FY 14 Net Cost</u>
General Government	-2,580,633	-2,235,772
Public Safety	-1,868,917	-1,782,472
Public Works	-2,493,655	-1,838,121
Public Health	-185,019	-279,500
Social and Economic Services	-201,470	-212,456
Culture and Recreation	-216,868	-281,443
Housing and Community Dev	-133,573	220,783
Debt Service Exp-Interest	-211,755	-194,981
Misc & Conser of Natur res	-189,911	-142,985
Total Governmental Activities	-8,081,801	-7,188,513

Business Type Activities

The cost of all Proprietary (business-type) activities for the year ending June 30, 2014 was \$6,904,010. Users of the business-type activities paid \$4,595,693 for the services; other revenue (including: taxes, transfers, grants) utilized by business-type funds was \$1,793,663. Change in net assets fiscal year 2014 is -\$357,295. Fiscal year 2013 change in net position was \$-669,845.

Proprietary Fund Activity (Business-type)

*As the reader will note program revenues did not meet the cost of expenses in the business type funds for fiscal year 2013-14. Madison County continues to supplement program revenues with tax revenues to help fund these business-type activities. Madison County general fund pays for the cost of health insurance expense for these business-type funds.



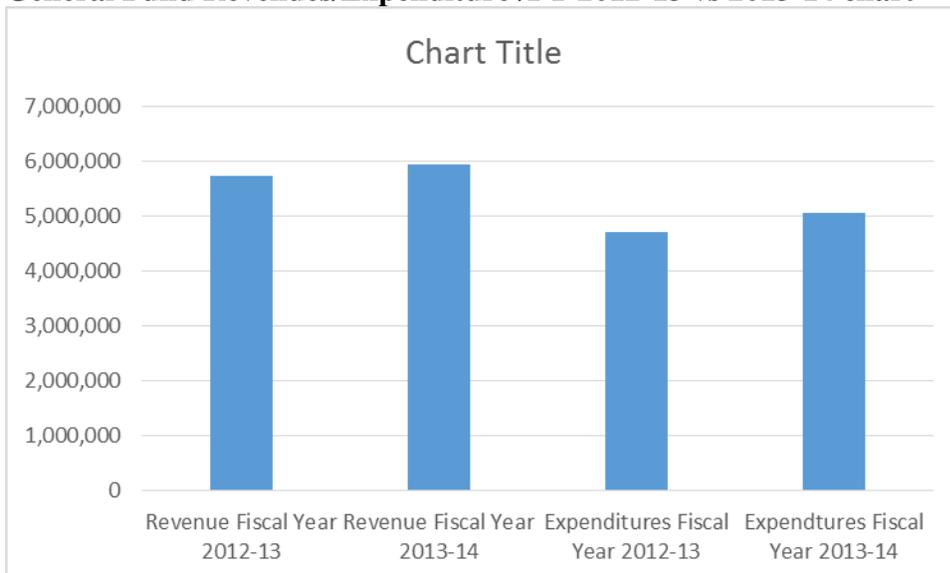
The County's Funds

The following few pages is an analysis of balances in the county's major funds and other governmental funds. Comparative information for the previous year is also reported.

The chart below lists revenues of the **General Fund for FY 2014 & 2013:**

Revenues by Source	FY 2014	FY 2013	
Taxes and Assessments	\$4,103,324	\$3,955,389	
Licenses and Permits	\$9,799	\$8,695	
Intergovernmental	\$1,202,969	\$1,130,642	Note add PILT
Charges for Services	\$486,881	\$477,822	Per GASB54
Fines & Forfeitures	\$78,825	\$76,035	
Miscellaneous	\$37,913	\$38,768	
Investment Earnings	\$24,048	\$35,451	
Total Revenues	\$5,943,758	\$5,722,801	

General Fund Revenues/Expenditure /FY 2012-13 vs 2013-14 chart



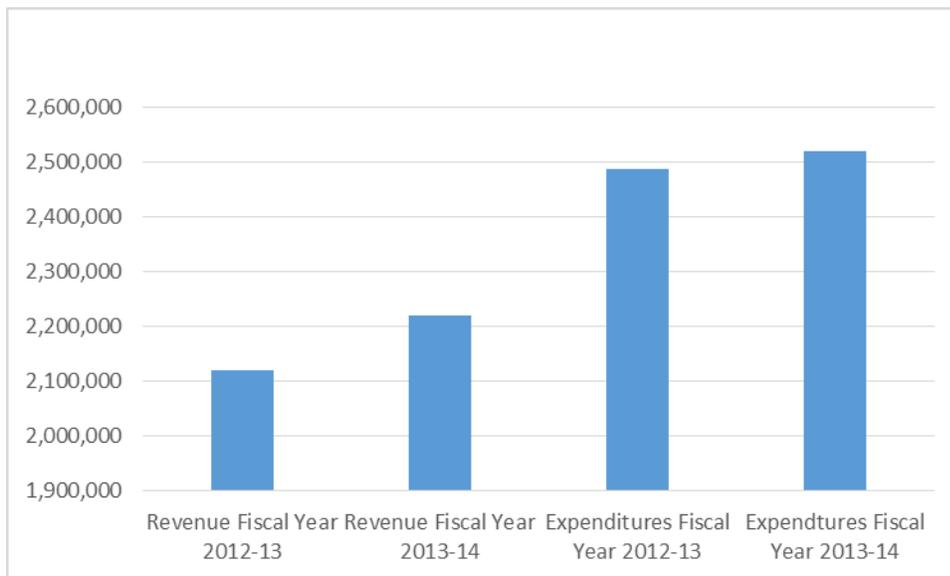
The following information compares expenditures of the **General Fund**.

Expenditures by Function	FY 2014	FY 2013
General Government	\$2,036,857	2,084,386
Public Safety	\$2,177,168	2,037,029
Public Health	\$111,204	140,926
Social & Economic Svc	\$52,535	50,480
Housing and Com Dev	\$20,000	20,000
Miscellaneous	\$196,231	181,371
Capital Outlay	\$465,684	202,120
Total Expenditures	\$5,059,679	4,716,312

Road Fund

Revenue by Source	FY 2014	FY 2013
Taxes and Assessments	\$1,565,747	\$1,503,394
Intergovernmental	\$575,807	\$578,066
Charges for Services	\$64,465	\$38,230
Liability Ins/Asset sale	\$14,655	\$
Note: Added PILT total to the General fund		
Total Revenues	\$2,220,674	\$2,119,690

Road Fund Revenues/Expenditures Comparison Fiscal Year 2014 v 2013



Expense by function	FY 2014	FY 2013
Public Works	\$2,228,668	\$1,957,824
Capital Outlay	\$290,201	\$527,911
<u>Total Expense</u>	\$2,518,869	\$2,485,735

RSID 2009-01 Ousel Falls Road (Rural Special Improvement District)

Expenses for RID debt fund 3509 for fiscal year 2014 totaled \$445,892.

Expenses for RID debt fund 3509 for fiscal year 2013 totaled \$244,178

Revenue received for RID debt fund 3509 for fiscal year 2014 totaled \$289,118.

Revenue received for RID debt fund 3509 for fiscal year 2013 totaled \$246,439.

Construction was complete fiscal year 2013, so we transferred the remaining funds from the construction fund to the debt service fund. Madison County then called bonds in fiscal year 2014 that's the reason for large comparison in expense.

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of fiscal year 2013-14, Madison County had a net value of \$16,184,694 invested in a broad range of capital assets, including land, buildings, several building and infrastructure projects under construction and equipment. This amount represents a net increase of three percent, over last year.

Capital Assets at Year End (net of Depreciation)

	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$724,596	\$724,596	\$70,000	\$70,000
Construction in Progress	\$1,399,529	\$406,704	\$37,250	\$1,696
Capital assets-net	\$10,924,864	\$11,491,014	\$3,028,457	\$2,971,449

This year's major additions included construction in progress for:

Courthouse Annexation building	\$471,115
Airport Run Way extension etc. (Twin Bridges)	\$419,064
Thompson Hickman Lib-new building	\$86,545
Blaine Spring Bridge	\$148,768
Varney Bridge	\$18,800
South Boulder Road Emergency Access	\$91,696
Mill Creek Culvert Replacements	\$10,224
Moore's Creek Culvert Replacements	\$43,150
Big Sky Airport Improvements	\$110,166
Governmental total	\$1,399,527
Madison Valley Manor-remodel	\$37,250
Business Type	\$37,250

The County's fiscal-year 2014-15 capital budget calls for it so spend another \$10 million for completion of the construction in progress listed above. The County has no plans to issue additional debt to finance these projects. Rather, the County will use resources on hand accompanied with federal funding.

Long-Term Liabilities

Accrued vacation pay and sick pay liability for Business Type funds equal \$272,675 and for Governmental funds is \$372,086. Debt for Rural Special Improvement Districts total \$3,450,000. OPEB liability for the County is \$3,893,440. Annual Required OPEB Contribution (ARC) is \$554,268. Outstanding debt for TRMCC expansion project is \$1,029,421.

ECONOMIC FACTORS AND BUDGETS

The County commissioners and appointed officials and citizens considered many factors when setting the 2014 fiscal year budget.

- Taxable value continues to increase.
- Madison County's health insurance carrier for fiscal year 2014 continues to be Blue Cross Blue Shield.
- Because of unforeseen costs with Tobacco Root Mtn Care Center construction project TRMCC continues to be conservative with expenses. Their cash is gradually increasing.
- Madison County has been setting funds aside for a number of years in order to build a new building for offices such as, Commissioner, Clerk & Recorder, Treasurer, Finance, Planning, Solid Waste and also addition storage space. Madison County employees are excited as construction began June 2014. Once this project is complete the existing County Courthouse will be Justice and District Court related. An elevator needs to be constructed into the existing Courthouse.
- Madison Valley Manor budgeted one million dollars for remodeling. MVM was awarded a CDBG grant to help fund the project.
- County Library (Thompson Hickman Library) in Virginia City passed a one year six mill levy to fund a building project to expand the existing library. Construction started in July 2014.

In summary, Madison County continues to maintain county services at a level necessary to serve its citizens, while keeping individual taxes at a minimum.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the public of Madison County a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact: Victoria Tilstra, Madison County Finance Director, PO Box 278, Virginia City Montana 59755.

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Madison County
Virginia City, 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 Madison 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 Madison County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting

As described in Note 1 to the financial statements, in 2014, the Madison 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 10, 49 through 51, and 52 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 February 24, 2015 on our consideration of the Madison 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 Madison County, Montana's internal control over financial reporting and compliance.

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

February 24, 2015

Madison 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	\$ 14,239,828	\$ 1,392,683	\$ 15,632,511
Taxes and assessments receivable, net	3,523,859	13,452	3,537,311
Accounts receivable - net	-	180,161	180,161
Contracts receivable	46,371	-	46,371
Due from other governments	230,111	3,149	233,260
Prepaid expenses	600	-	600
Total current assets	<u>\$ 18,040,769</u>	<u>\$ 1,589,445</u>	<u>\$ 19,630,214</u>
Noncurrent assets			
Restricted cash and investments	\$ 218,750	\$ -	\$ 218,750
Capital assets - land	724,596	70,000	794,596
Capital assets - construction in progress	1,399,529	37,250	1,436,779
Capital assets - depreciable, net	10,924,864	3,028,456	13,953,320
Total noncurrent assets	<u>\$ 13,267,739</u>	<u>\$ 3,135,706</u>	<u>\$ 16,403,445</u>
Total assets	<u>\$ 31,308,508</u>	<u>\$ 4,725,151</u>	<u>\$ 36,033,659</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 190,408	\$ -	\$ 190,408
Due to Fiscal Agent	7,500	-	7,500
Current portion of long-term liabilities	15,000	-	15,000
Current portion of long-term capital liabilities	175,000	42,372	217,372
Current portion of compensated absences payable	250,970	210,635	461,605
Total current liabilities	<u>\$ 638,878</u>	<u>\$ 253,007</u>	<u>\$ 891,885</u>
Noncurrent liabilities			
Deposits payable	\$ -	\$ 5,778	\$ 5,778
Noncurrent portion of long-term liabilities	3,524,841	2,329,991	5,854,832
Noncurrent portion of long-term capital liabilities	985,000	987,050	1,972,050
Noncurrent portion of compensated absences	121,116	62,040	183,156
Total noncurrent liabilities	<u>\$ 4,630,957</u>	<u>\$ 3,384,859</u>	<u>\$ 8,015,816</u>
Total liabilities	<u>\$ 5,269,835</u>	<u>\$ 3,637,866</u>	<u>\$ 8,907,701</u>
NET POSITION			
Net investment in capital assets	\$ 11,888,989	\$ 2,106,284	\$ 13,995,273
Restricted for debt service	4,187,989	-	4,187,989
Restricted for general government	273,936	-	273,936
Restricted for public safety	652,091	-	652,091
Restricted for public works	3,618,271	-	3,618,271
Restricted for public health	351,443	-	351,443
Restricted for culture and recreation	852,756	-	852,756
Restricted for economic development	68,775	-	68,775
Restricted for other purposes	49,786	-	49,786
Unrestricted	4,094,637	(1,018,999)	3,075,638
Total net position	<u>\$ 26,038,673</u>	<u>\$ 1,087,285</u>	<u>\$ 27,125,958</u>

See accompanying Notes to the Financial Statements

Madison 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		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,582,347	\$ 317,842	\$ 28,733	\$ -	\$ (2,235,772)	\$ -	\$ (2,235,772)
Public safety	2,423,996	186,045	455,479	-	(1,782,472)	-	(1,782,472)
Public works	3,993,034	1,185,303	529,529	440,081	(1,838,121)	-	(1,838,121)
Public health	354,907	65,407	10,000	-	(279,500)	-	(279,500)
Social and economic services	212,456	-	-	-	(212,456)	-	(212,456)
Culture and recreation	439,146	50,903	106,800	-	(281,443)	-	(281,443)
Housing and community development	262,693	36,259	5,651	-	(220,783)	-	(220,783)
Debt service - interest	194,981	-	-	-	(194,981)	-	(194,981)
Miscellaneous	214,566	71,581	-	-	(142,985)	-	(142,985)
Total governmental activities	\$ 10,678,126	\$ 1,913,340	\$ 1,136,192	\$ 440,081	\$ (7,188,513)	\$ -	\$ (7,188,513)
Business-type activities:							
Nursing Home Ennis	\$ 2,884,960	\$ 1,880,242	\$ -	\$ -	\$ -	\$ (1,004,718)	\$ (1,004,718)
Nursing Home Sheridan	3,139,053	1,869,924	-	-	-	(1,269,129)	(1,269,129)
Solid Waste	879,997	845,527	-	-	-	(34,470)	(34,470)
Total business-type activities	\$ 6,904,010	\$ 4,595,693	\$ -	\$ -	\$ -	\$ (2,308,317)	\$ (2,308,317)
Total primary government	\$ 17,582,136	\$ 6,509,033	\$ 1,136,192	\$ 440,081	\$ (7,188,513)	\$ (2,308,317)	\$ (9,496,830)
General Revenues:							
Property taxes for general purposes					\$ 8,902,054	\$ 514	\$ 8,902,568
Miscellaneous					131,488	129,941	261,429
Interest/Investment earnings					27,059	700	27,759
PILT					735,234	-	735,234
State entitlement					681,563	-	681,563
Contributions & Donations					150,194	1,580	151,774
Transfers - net					(1,818,287)	1,818,287	-
Total general revenues, special items and transfers					\$ 8,809,305	\$ 1,951,022	\$ 10,760,327
Change in net position					\$ 1,620,792	\$ (357,295)	\$ 1,263,497
Net position - beginning					\$ 24,411,441	\$ 1,444,580	\$ 25,856,021
Restatements					6,440	-	6,440
Net position - beginning - restated					\$ 24,417,881	\$ 1,444,580	\$ 25,862,461
Net position - end					\$ 26,038,673	\$ 1,087,285	\$ 27,125,958

See accompanying Notes to the Financial Statements

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

	General	Road	RID 2009-01 Ousel Falls Rd	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	\$ 8,014,088	\$ 917,867	\$ 167,081	\$ 5,139,284	\$ 14,238,320
Taxes and assessments receivable, net	104,250	25,826	2,286,428	1,107,355	3,523,859
Contracts receivable	-	-	-	46,371	46,371
Due from other funds	79,714	103,494	-	-	183,208
Due from other governments	36,823	2,137	-	191,151	230,111
Prepaid expenses	-	-	-	600	600
Total current assets	\$ 8,234,875	\$ 1,049,324	\$ 2,453,509	\$ 6,484,761	\$ 18,222,469
Noncurrent assets:					
Restricted cash and investments	\$ -	\$ -	\$ 58,100	\$ 160,650	\$ 218,750
Total noncurrent assets	\$ -	\$ -	\$ 58,100	\$ 160,650	\$ 218,750
Total assets	\$ 8,234,875	\$ 1,049,324	\$ 2,511,609	\$ 6,645,411	\$ 18,441,219
Current liabilities:					
Accounts payable	\$ 124,775	\$ -	\$ -	\$ 65,633	\$ 190,408
Due to other funds	-	-	-	183,208	183,208
Due to Fiscal Agent	-	-	-	7,500	7,500
Total current liabilities	\$ 124,775	\$ -	\$ -	\$ 256,341	\$ 381,116
Total liabilities	\$ 124,775	\$ -	\$ -	\$ 256,341	\$ 381,116
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	\$ 104,250	\$ 25,826	\$ 2,286,428	\$ 1,107,355	\$ 3,523,859
Total deferred inflows of resources	\$ 104,250	\$ 25,826	\$ 2,286,428	\$ 1,107,355	\$ 3,523,859
FUND BALANCES					
Restricted	\$ -	\$ 1,023,498	\$ 225,181	\$ 5,266,690	\$ 6,515,369
Committed	-	-	-	114,269	114,269
Unassigned fund balance	8,005,850	-	-	(99,244)	7,906,606
Total fund balance	\$ 8,005,850	\$ 1,023,498	\$ 225,181	\$ 5,281,715	\$ 14,536,244

See accompanying Notes to the Financial Statements

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

Total fund balances - governmental funds	\$ 14,536,244
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,048,989
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	3,523,859
An internal service fund is used by management to charge the costs of providing services within the government. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position	1,508
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(5,071,927)
Total net position - governmental activities	\$ <u><u>26,038,673</u></u>

See accompanying Notes to the Financial Statements

Madison 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>RID 2009-01 Ousel Falls Rd</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 4,103,324	\$ 1,565,746	\$ 288,478	\$ 4,496,378	\$ 10,453,926
Licenses and permits	9,799	-	-	3,762	13,561
Intergovernmental	1,202,969	575,807	-	1,174,992	2,953,768
Charges for services	486,881	64,465	-	367,895	919,241
Fines and forfeitures	78,824	-	-	18,166	96,990
Miscellaneous	37,913	13,155	-	285,045	336,113
Investment earnings	24,048	-	640	2,115	26,803
Total revenues	<u>\$ 5,943,758</u>	<u>\$ 2,219,173</u>	<u>\$ 289,118</u>	<u>\$ 6,348,353</u>	<u>\$ 14,800,402</u>
EXPENDITURES					
General government	\$ 2,036,856	\$ -	\$ -	\$ 178,837	\$ 2,215,693
Public safety	2,177,168	-	-	116,703	2,293,871
Public works	-	2,228,667	-	1,000,823	3,229,490
Public health	111,204	-	-	240,622	351,826
Social and economic services	52,535	-	-	150,700	203,235
Culture and recreation	-	-	-	419,313	419,313
Housing and community development	20,000	-	-	241,874	261,874
Debt service - principal	-	-	315,000	175,000	490,000
Debt service - interest	-	-	130,892	64,089	194,981
Miscellaneous	196,231	-	-	18,335	214,566
Capital outlay	465,685	290,201	-	722,684	1,478,570
Total expenditures	<u>\$ 5,059,679</u>	<u>\$ 2,518,868</u>	<u>\$ 445,892</u>	<u>\$ 3,328,980</u>	<u>\$ 11,353,419</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 884,079</u>	<u>\$ (299,695)</u>	<u>\$ (156,774)</u>	<u>\$ 3,019,373</u>	<u>\$ 3,446,983</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from the sale of general capital asset disposition	\$ -	\$ 1,500	\$ -	\$ 19,914	\$ 21,414
Transfers in	755,523	200,000	-	179,988	1,135,511
Transfers out	<u>(1,154,711)</u>	<u>(14,667)</u>	<u>-</u>	<u>(1,784,420)</u>	<u>(2,953,798)</u>
Total other financing sources (uses)	<u>\$ (399,188)</u>	<u>\$ 186,833</u>	<u>\$ -</u>	<u>\$ (1,584,518)</u>	<u>\$ (1,796,873)</u>
Net Change in Fund Balance	<u>\$ 484,891</u>	<u>\$ (112,862)</u>	<u>\$ (156,774)</u>	<u>\$ 1,434,855</u>	<u>\$ 1,650,110</u>
Fund balances - beginning	\$ 7,520,959	\$ 1,136,360	\$ 381,955	\$ 3,846,860	\$ 12,886,134
Fund balance - ending	<u>\$ 8,005,850</u>	<u>\$ 1,023,498</u>	<u>\$ 225,181</u>	<u>\$ 5,281,715</u>	<u>\$ 14,536,244</u>

See accompanying Notes to the Financial Statements

Madison 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 \$ 1,650,110

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	1,478,570
- Depreciation expense	(1,019,507)

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	(21,414)
- Loss on the sale/deletion of capital assets	(17,414)

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

- Long-term receivables (deferred revenue)	(665,783)
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The change in compensated absences is shown as an expense in the Statement of Activities

(19,565)

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	490,000
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability	(249,421)
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Internal service funds are used by management to share the costs of certain activities, to individual funds. The net revenue of the internal service funds is reported with the governmental activities of the Government-Wide Statement of Activities net of the amounts allocated to business-type activities and depreciation expense.

(4,784)

Change in net position - Statement of Activities \$ 1,620,792

See accompanying Notes to the Financial Statements

Madison County, Montana
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds				Governmental
	Nursing	Nursing Home	Non-major	Totals	Internal Service
	Home Ennis	Sheridan	Enterprise		Funds
ASSETS					
Current assets:					
Cash and investments	\$ 1,065,716	\$ 148,027	\$ 178,940	\$ 1,392,683	\$ 1,508
Taxes and assessments receivable, net	-	-	13,452	13,452	-
Accounts receivable - net	62,990	117,171	-	180,161	-
Due from other governments	-	3,149	-	3,149	-
Total current assets	<u>\$ 1,128,706</u>	<u>\$ 268,347</u>	<u>\$ 192,392</u>	<u>\$ 1,589,445</u>	<u>\$ 1,508</u>
Noncurrent assets:					
Capital assets - land	\$ 50,000	\$ 20,000	\$ -	\$ 70,000	\$ -
Capital assets - construction in progress	37,250	-	-	37,250	-
Capital assets - depreciable, net	464,142	2,151,320	412,994	3,028,456	-
Total noncurrent assets	<u>\$ 551,392</u>	<u>\$ 2,171,320</u>	<u>\$ 412,994</u>	<u>\$ 3,135,706</u>	<u>\$ -</u>
Total assets	<u>\$ 1,680,098</u>	<u>\$ 2,439,667</u>	<u>\$ 605,386</u>	<u>\$ 4,725,151</u>	<u>\$ 1,508</u>
LIABILITIES					
Current liabilities:					
Current portion of long-term capital liabilities	\$ -	\$ 42,372	\$ -	\$ 42,372	\$ -
Current portion of compensated absences payable	65,082	112,663	32,890	210,635	-
Total current liabilities	<u>\$ 65,082</u>	<u>\$ 155,035</u>	<u>\$ 32,890</u>	<u>\$ 253,007</u>	<u>\$ -</u>
Noncurrent liabilities:					
Deposits payable	\$ 5,778	\$ -	\$ -	\$ 5,778	\$ -
Noncurrent portion of long-term liabilities	1,004,037	1,116,884	209,070	2,329,991	-
Noncurrent portion of long-term capital liabilities	-	987,050	-	987,050	-
Noncurrent portion of compensated absences	24,728	24,656	12,656	62,040	-
Total noncurrent liabilities	<u>\$ 1,034,543</u>	<u>\$ 2,128,590</u>	<u>\$ 221,726</u>	<u>\$ 3,384,859</u>	<u>\$ -</u>
Total liabilities	<u>\$ 1,099,625</u>	<u>\$ 2,283,625</u>	<u>\$ 254,616</u>	<u>\$ 3,637,866</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 551,392	\$ 1,141,898	\$ 412,994	\$ 2,106,284	\$ -
Unrestricted	29,081	(985,856)	(62,224)	(1,018,999)	1,508
Total net position	<u>\$ 580,473</u>	<u>\$ 156,042</u>	<u>\$ 350,770</u>	<u>\$ 1,087,285</u>	<u>\$ 1,508</u>
Total liabilities and net position	<u>\$ 1,680,098</u>	<u>\$ 2,439,667</u>	<u>\$ 605,386</u>	<u>\$ 4,725,151</u>	<u>\$ 1,508</u>

See accompanying Notes to the Financial Statements

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

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Nursing Home</u>	<u>Nursing Home</u>	<u>Non-major</u>	<u>Totals</u>	<u>Internal Service</u>
	<u>Ennis</u>	<u>Sheridan</u>	<u>Enterprise</u>		<u>Funds</u>
OPERATING REVENUES					
Charges for services	\$ 1,880,242	\$ 1,869,924	\$ 105,236	\$ 3,855,402	\$ 10,077
Miscellaneous revenues	1,580	87,663	80,302	169,545	-
Special assessments	-	-	702,267	702,267	-
Total operating revenues	<u>\$ 1,881,822</u>	<u>\$ 1,957,587</u>	<u>\$ 887,805</u>	<u>\$ 4,727,214</u>	<u>\$ 10,077</u>
OPERATING EXPENSES					
Personal services	\$ 2,086,743	\$ 2,270,973	\$ 397,731	\$ 4,755,447	\$ 14,861
Supplies	222,825	234,803	128,026	585,654	-
Purchased services	535,048	501,747	303,063	1,339,858	-
Fixed charges	-	1,190	-	1,190	-
Depreciation	40,344	94,844	51,177	186,365	-
Total operating expenses	<u>\$ 2,884,960</u>	<u>\$ 3,103,557</u>	<u>\$ 879,997</u>	<u>\$ 6,868,514</u>	<u>\$ 14,861</u>
Operating income (loss)	<u>\$ (1,003,138)</u>	<u>\$ (1,145,970)</u>	<u>\$ 7,808</u>	<u>\$ (2,141,300)</u>	<u>\$ (4,784)</u>
NON-OPERATING REVENUES (EXPENSES)					
Taxes/assessments revenue	\$ -	\$ -	\$ 514	\$ 514	\$ -
Interest revenue	-	205	495	700	-
Debt service interest expense	-	(35,496)	-	(35,496)	-
Total non-operating revenues (expenses)	<u>\$ -</u>	<u>\$ (35,291)</u>	<u>\$ 1,009</u>	<u>\$ (34,282)</u>	<u>\$ -</u>
Income (loss) before contributions and transfers	<u>\$ (1,003,138)</u>	<u>\$ (1,181,261)</u>	<u>\$ 8,817</u>	<u>\$ (2,175,582)</u>	<u>\$ (4,784)</u>
Transfers in	897,662	920,625	-	1,818,287	-
Change in net position	<u>\$ (105,476)</u>	<u>\$ (260,636)</u>	<u>\$ 8,817</u>	<u>\$ (357,295)</u>	<u>\$ (4,784)</u>
Net Position - Beginning of the year	\$ 685,949	\$ 416,678	\$ 341,953	\$ 1,444,580	\$ 6,292
Net Position - End of the year	<u>\$ 580,473</u>	<u>\$ 156,042</u>	<u>\$ 350,770</u>	<u>\$ 1,087,285</u>	<u>\$ 1,508</u>

See accompanying Notes to the Financial Statements

Madison County, Montana
Statement of Cash Flows
Proprietary Fund Types
Fiscal Year Ended June 30, 2014

	Business - Type Activities - Enterprise Funds				Governmental
	Nursing Home	Nursing Home	Non-major	Totals	Activities
	Ennis	Sheridan	Enterprise		Internal
					Service
Cash flows from operating activities:					
Cash received from providing services	\$ 1,841,027	\$ 2,001,551	\$ 105,236	\$ 3,947,814	\$ 10,077
Cash received from special assessments	-	-	702,267	702,267	-
Cash received from miscellaneous sources	1,580	87,663	80,302	169,545	-
Cash payments to suppliers	(222,825)	(235,993)	(128,026)	(586,844)	-
Cash payments for professional services	(535,048)	(501,747)	(303,063)	(1,339,858)	-
Cash payments to employees	(1,951,125)	(2,112,293)	(365,604)	(4,429,022)	(14,861)
Net cash provided (used) by operating activities	<u>\$ (866,391)</u>	<u>\$ (760,819)</u>	<u>\$ 91,112</u>	<u>\$ (1,536,098)</u>	<u>\$ (4,784)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	\$ (82,148)	\$ (20,121)	\$ (176,657)	\$ (278,926)	\$ -
Principal paid on debt	-	(40,968)	-	(40,968)	-
Interest paid on debt	-	(35,496)	-	(35,496)	-
Net cash provided (used) by capital and related financing activities	<u>\$ (82,148)</u>	<u>\$ (96,585)</u>	<u>\$ (176,657)</u>	<u>\$ (355,390)</u>	<u>\$ -</u>
Cash flows from non-capital financing activities:					
Tax levies and contributions from the County	\$ -	\$ -	\$ 5,942	\$ 5,942	\$ -
Cash transferred from county	897,662	920,625	-	1,818,287	-
Net cash provided (used) from non-capital financing activities	<u>\$ 897,662</u>	<u>\$ 920,625</u>	<u>\$ 5,942</u>	<u>\$ 1,824,229</u>	<u>\$ -</u>
Cash flows from investing activities:					
Interest on investments	\$ -	\$ (68)	\$ 495	\$ 427	\$ -
Net cash provided (used) by investing activities	<u>\$ -</u>	<u>\$ (68)</u>	<u>\$ 495</u>	<u>\$ 427</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (50,877)</u>	<u>\$ 63,153</u>	<u>\$ (79,108)</u>	<u>\$ (66,832)</u>	<u>\$ (4,784)</u>
Cash and cash equivalents at beginning	<u>\$ 1,116,593</u>	<u>\$ 84,874</u>	<u>\$ 258,048</u>	<u>\$ 1,459,515</u>	<u>\$ 6,292</u>
Cash and cash equivalents at end	<u><u>\$ 1,065,716</u></u>	<u><u>\$ 148,027</u></u>	<u><u>\$ 178,940</u></u>	<u><u>\$ 1,392,683</u></u>	<u><u>\$ 1,508</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (1,003,138)	\$ (1,145,970)	\$ 7,808	\$ (2,141,300)	\$ (4,784)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	\$ 40,344	\$ 94,844	\$ 51,177	\$ 186,365	\$ -
Other post-employment benefits	127,482	149,652	27,713	304,847	-
Changes in assets and liabilities:					
Increase in accounts receivable	(39,215)	131,627	-	92,412	-
Increase in compensated absences payable	2,358	9,028	4,414	15,800	-
Increase in deposits payable	5,778	-	-	5,778	-
Net cash provided (used) by operating activities	<u>\$ (866,391)</u>	<u>\$ (760,819)</u>	<u>\$ 91,112</u>	<u>\$ (1,536,098)</u>	<u>\$ (4,784)</u>

See accompanying notes to the financial statements

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

	Investment Trust Funds		Agency Funds
ASSETS			
Cash and short-term investments	\$ 5,678,445	\$	1,345,955
Taxes receivable	-		448,836
Total assets	\$ 5,678,445	\$	1,794,791
LIABILITIES			
Warrants payable	\$ -	\$	791,349
Due to others	-		1,003,442
Total liabilities	\$ -	\$	1,794,791
NET POSITION			
Assets held in trust	\$ 5,678,445		

See accompanying Notes to the Financial Statements

Madison 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>3,871,370</u>
Investment earnings:		
Interest and change in fair value of investments	\$	<u>7,944</u>
Total additions	\$	<u>3,879,314</u>
 DEDUCTIONS		
Distributions from investment trust fund	\$	<u>3,987,237</u>
Change in net position	\$	<u>(107,923)</u>
 Net Position - Beginning of the year	 \$	 5,786,368
 Net Position - End of the year	 \$	 <u><u>5,678,445</u></u>

See accompanying Notes to the Financial Statements

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

MADISON 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:

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

- 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.

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

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 used to account for financial resources devoted to County roads.

RID 209-01 Ousel Falls Rd - A debt service fund that is used to account for Ousel Falls Road development special assessment bonds.

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:

Ennis Nursing Home – An enterprise fund that accounts for the activities of the County’s Nursing Home in Ennis, Montana.

Sheridan Nursing Home – An enterprise fund that accounts for the activities of the County’s Nursing Home in Sheridan, Montana.

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

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>	
Cash on hand	
Petty Cash	\$ 67,782
<u>Cash in banks:</u>	
Demand deposits	227,364
Savings deposits	2,029,810
Time deposits	483,427
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	20,067,279
Total	\$ <u><u>22,875,662</u></u>

Repurchase Agreements

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

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

Credit Risk

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

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

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

(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.

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

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

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable-Rate	663,143,336	A3	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable-Rate	435,974,196	A2	35
Other Asset Backed	17,987,295	BBB-	NA
U.S. Government Agency Fixed	25,000,000	A1	3
U.S. Government Agency Variable -Rate	182,700,345	A1	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>29,561,449</u>	<u>NR</u>	<u>4</u>
Total Investments	<u>\$ 2,646,260,626</u>		<u>43</u>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

“*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.”

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

Custodial Credit Risk

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

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

	June 30, 2014
	<u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 724,265
- Collateral held by the pledging bank's trust department but not in the County's name.	1,429,803
Uninsured and uncollateralized	<u>583,332</u>
Total deposits and investments	<u>\$ 2,737,400</u>

Deposit Security

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

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

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

Cash and Investment Pool

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments." In addition, investments are separately held by several of the government's funds. The deposits and investments of the Harrison School District #23; Sheridan School District #5; and Twin Bridges School District #7 fund are held separately from those of other government funds.

Investment in the Treasurer's Pools

The Madison 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. There are two types of investment trust funds reported by the County, pooled and individually directed investment trust funds.

The County has one pooled investment trust fund invested in STIP (State Short Term Investment Pool). The pooled funds invested in STIP are carried at fair value.

Non-pooled investments are also carried at fair value. The County invests funds for three external entities. These investments are in STIP (State Short Term Investment Pool). The fair value of non-pooled investments is determined annually and based on current market prices.

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

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.

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

Investment Income

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

Condensed statements of investments pools

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

Statement of Net Assets

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 13,896,239
Equity of external pool participants	<u>5,678,445</u>
Total equity	<u><u>\$ 19,574,684</u></u>

Condensed Statement of Changes in Net Assets

	External	Internal
Investment earnings	\$ 7,944	\$ 16,001
Contributions to trust	3,871,370	10,874,136
Distributions paid	<u>(3,987,237)</u>	<u>(9,597,049)</u>
Net change in net assets	\$ (107,923)	\$ 1,293,088
Net assets at beginning of year	<u>5,786,368</u>	<u>12,603,151</u>
Net assets at end of year	<u><u>\$ 5,678,445</u></u>	<u><u>\$ 13,896,239</u></u>

Cash equivalents

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

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>
RSID Reserved Cash	\$ <u><u>218,750</u></u>

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

NOTE 4. RECEIVABLES

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

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

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

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

NOTE 5. INVENTORIES

The cost of inventories are recorded as an expenditure when purchased.

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:

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

Buildings	20 – 50 years
Improvements	10 – 20 years
Machinery & Equipment	5 – 15 years
Vehicles	5 years
Sewer Lines & Pump Station	10 – 40 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 was as follows:

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 724,596	\$ -	\$ -	\$ -	\$ 724,596
Construction in progress	406,704	992,825	-	-	1,399,529
Total capital assets not being depreciated	<u>\$ 1,131,300</u>	<u>\$ 992,825</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 2,124,125</u>
Other capital assets:					
Buildings	\$ 3,817,481	\$ -	-	\$ -	\$ 3,817,481
Improvements other than buildings	173,231	-	-	-	173,231
Machinery and equipment	6,190,026	533,639	12,820	(272,880)	6,463,605
Infrastructure	7,877,953	-	(12,820)	-	7,865,133
Total other capital assets at historical cost	\$ 18,058,691	\$ 533,639	-	\$ (272,880)	\$ 18,319,450
Less: accumulated depreciation	\$ (6,567,677)	\$ (1,019,507)	-	\$ 192,598	\$ (7,394,586)
Total	<u>\$ 12,622,314</u>	<u>\$ 506,957</u>	<u>\$ -</u>	<u>\$ (80,282)</u>	<u>\$ 13,048,989</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 92,884
Public safety	130,125
Public works	763,544
Public health	3,081
Social and economic services	9,221
Culture and recreation	19,833
Housing and community development	819
Total governmental activities depreciation expense	<u>\$ 1,019,507</u>

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

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

Business-type activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 70,000	\$ -	\$ 70,000
Construction in progress	1,696	35,554	37,250
Total capital assets not being depreciated	<u>\$ 71,696</u>	<u>\$ 35,554</u>	<u>\$ 107,250</u>
Other capital assets:			
Buildings	\$ 3,488,402	\$ 39,678	\$ 3,528,080
Improvements other than buildings	15,222	20,121	35,343
Machinery and equipment	1,478,302	183,573	1,661,875
Construction work in progress	24,163	-	24,163
Total other capital assets at historical cost	<u>\$ 5,006,089</u>	<u>\$ 243,372</u>	<u>\$ 5,249,461</u>
Less: accumulated depreciation	<u>\$ (2,034,640)</u>	<u>\$ (186,365)</u>	<u>\$ (2,221,005)</u>
Total	<u><u>\$ 3,043,145</u></u>	<u><u>\$ 92,561</u></u>	<u><u>\$ 3,135,706</u></u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and business-type financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

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

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Special assessment bonds	\$ 3,940,000	\$ -	\$ (490,000)	\$ 3,450,000	\$ 190,000
Compensated absences	352,521	19,565	-	372,086	250,970
Other post-employment benefits*	1,000,420	249,421	-	1,249,841	-
Total	<u><u>\$ 5,292,941</u></u>	<u><u>\$ 268,986</u></u>	<u><u>\$ (490,000)</u></u>	<u><u>\$ 5,071,927</u></u>	<u><u>\$ 440,970</u></u>

*See Note 8

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

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

Business-type Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
Revenue bonds	\$ 1,070,390	\$ -	\$ (40,968)	\$ 1,029,422	\$ 42,372	
Compensated absences	256,875	15,800	-	272,675	210,635	
Other post-employment benefits*	2,025,144	304,847	-	2,329,991	-	
Total	<u>\$ 3,352,409</u>	<u>\$ 320,647</u>	<u>\$ (40,968)</u>	<u>\$ 3,632,088</u>	<u>\$ 253,007</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 County 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:

<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>
Pooled 1999 SIDs	12/15/99	4%-5.75%	20 yrs	7/1/19	\$ 1,166,104	Varies	\$ 160,000
SID 2000-02 Crow Kind	8/30/01	3%-5.3%	20 yrs	7/1/21	651,000	Varies	255,000
Pooled 2006 SIDs	6/29/06	3.75%-5%	20 yrs	7/1/26	1,375,000	Varies	745,000
SID 2009-01 Ousel Falls Rd	6/22/10	1.75%-5.6%	20 yrs	7/1/30	<u>2,905,000</u>	Varies	<u>2,290,000</u>
					<u>\$ 6,097,104</u>		<u>\$ 3,450,000</u>

Reported in governmental activities.

MADISON 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	\$ 190,000	\$ 172,348
2016	310,000	162,355
2017	230,000	146,300
2018	245,000	134,895
2019	250,000	122,730
2020	265,000	110,315
2021	225,000	89,925
2022	245,000	78,375
2023	250,000	74,100
2024	240,000	61,825
2025	180,000	50,000
2026	190,000	41,000
2027	200,000	31,500
2028	210,000	21,500
2029	220,000	11,000
Total	\$ 3,450,000	\$ 1,308,168

Revenue Bonds – The County issued revenue bonds for the construction of Tobacco Roots Mountain Care Center. The principal and interest of these bonds are payable from ad valorem taxes levied by the County. Pursuant to MCA 7-34-2411 the County may pay bonds from taxes levied for the health care facility. Revenue bonds outstanding as of June 30, 2014 were as follows:

<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>
TRMCC Revenue Bonds (RD)	6/7/12	3.38%	20 yrs	6/7/32	\$ <u>1,110,000</u>	\$ <u>76,464</u>	\$ <u>1,029,422</u>

Reported in business-type activities.

MADISON 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	\$ 42,372	\$34,092
2016	43,825	32,639
2017	45,327	31,137
2018	46,881	29,583
2019	48,488	27,976
2020	50,150	26,314
2021	51,869	24,595
2022	53,647	22,817
2023	55,485	20,979
2024	57,387	19,077
2025	59,354	17,110
2026	61,389	15,075
2027	63,493	12,971
2028	65,669	10,795
2029	67,920	8,544
2030	70,248	6,216
2031	72,656	3,808
2032	73,262	1,317
Total	\$ 1,029,422	\$ 345,045

From time to time, the County at its discretion may issue Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither Madison County, The State of Montana, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2014, the only conduit debt obligations issued were for the Madison Valley Hospital Inc., and the outstanding bond amount at September 30, 2014 (fiscal year end of Madison Valley Hospital Inc.) was \$4,151,620.

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

Compensated Absences

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

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The Madison County Employee Group Benefits Plan (MCEGBP) is a single-employer defined benefit healthcare plan administered by Madison County. MCEGBP provides medical and dental insurance benefits to eligible retirees and their spouses. Montana Code Annotated Section 2-18-704 allows members who retire from service to pay medical and dental benefit through the government's plan at the same premium as active members. This plan does not issue a stand-alone financial report.

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 3,893,440
Actuarial value of plan assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 3,893,440
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 5,536,072
UAAL as a percentage of covered payroll	87.6%

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

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

Annual Required Contribution (ARC)	\$	554,268
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	554,268
Contributions made	\$	-
Increase in net OPEB obligation	\$	554,268
Net OPEB obligation - beginning of year	\$	3,025,564
Net OPEB obligation - end of year	\$	3,579,832

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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial funding method used to determine the cost of the Madison County Employee Group Benefits Plan is the projected unit credit funding method. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule.

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

The actuarial assumptions included a:

4.25%	Investment/discount rate
2.5%	Projected payroll increases
45%	Of future retirees are assumed to elect coverage at the time of retirement
70%	Of future eligible spouses of future retirees are assumed to elect medical coverage.

The actuarial assumptions also included the following healthcare cost trend:

<u>Year</u>	<u>Medical % Increase</u>	<u>Prescription Drug % Increase</u>
2013	8.0%	8.0%
2014	7.5%	7.5%
2015	7.0%	7.0%
2016	6.5%	6.5%
2017	6.0%	6.0%
2018	5.5%	5.5%
2019	5.0%	5.0%
2020+	4.5%	4.5%

NOTE 9. 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>	
Year end adjustment for negative cash	General – Major Governmental	Enhancement Program – Nonmajor Governmental	\$ 51,664
Year end adjustment for negative cash	General – Major Governmental	Disaster/FEMA – Nonmajor Governmental	28,050
Adjustment for budget amendments related to repairs of roads	Road – Major Governmental	RID 800 Maintenance – Nonmajor Governmental	97,229
Adjustment for budget amendments related to repairs of roads	Road – Major Governmental	RSID 99-01 Maintenance – Nonmajor Governmental	<u>6,265</u>
			<u>\$ 183,208</u>

MADISON 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>
Severance	Compensated Absences Liability – Nonmajor Governmental	General – Major Governmental	\$ 25,000
Health insurance	Library – Nonmajor Governmental	General – Major Governmental	12,538
Health insurance	Planning – Nonmajor Governmental	General – Major Governmental	12,412
Health insurance	Nursing Home – Ennis – Major Proprietary	General – Major Governmental	212,662
Health insurance	Nursing Home – Sheridan – Major Proprietary	General – Major Governmental	235,625
Sidewalk project	Enhancement Program – Nonmajor Governmental	Road – Major Governmental	14,667
Transfer from Tax Levy Fund in support of operations	Nursing Home – Ennis – Major Proprietary	Madison County Nursing Home – Nonmajor Governmental	685,000
Transfer from Tax Levy Fund in support of operations	Nursing Home – Sheridan – Major Proprietary	Madison County Nursing Home – Nonmajor Governmental	685,000
Depreciation	Library Depreciation Reserve – Nonmajor Governmental	Library – Nonmajor Governmental	15,371
Transfer from Tax Levy Fund in support of operations	General – Major Governmental	Permissive Medical Levy – Nonmajor Governmental	399,049
PILT transfers	General – Major Governmental	PILT* – Major Governmental	356,474
PILT transfers	Road – Major Governmental	PILT* – Major Governmental	200,000
PILT transfers	Bridge – Nonmajor Governmental	PILT* – Major Governmental	<u>100,000</u>
*Reported with the general fund as required by GASB 54			<u>\$ 2,953,798</u>

NOTE 10. 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:

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

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

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

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

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

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

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

The 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	\$ 390,946	\$ 64,729	\$ 594
2013	\$ 394,853	\$ 70,298	\$ 505
2014	\$ 443,029	\$ 74,362	\$ 1,000

NOTE 11. 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 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

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

For assigned fund balance the body or official authorized to assign amounts to a specific purpose is required to be set at a board meeting and the policy established by the governing body pursuant to which that authorization is given is required to be set at a board meeting.

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

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

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 1,023,498	Public works
RID 2009-01 Ousel Falls Rd	225,181	Debt Service
All other aggregate:		
	306,341	Public Health
	2,548,496	Public Works
	834,366	Culture and Recreation
	252,690	General Government
	66,225	Economic Development
	46,155	Housing and Community Development
	563,396	Debt Service
	<u>649,021</u>	Public Safety
Total	<u>\$ 6,515,369</u>	

Committed Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All Other Aggregate:	\$ 114,269	Debt Service

NOTE 13. DEFICIT FUND BALANCES/NET POSITION

<u>Fund</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
RID-80 Maintenance	\$ 94,348	Insufficient tax revenue	Tax revenues in future years.
RSID-99-01	\$ 4,896	Insufficient tax revenue	Tax revenues in future years

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

NOTE 14. RESTATEMENTS

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

<u>Opinion Unit</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Governmental Activities	\$ <u>6,440</u>	Prior period correction of asset value

NOTE 15. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

Law Enforcement Services

The County participated in a law enforcement service agreement with the Gallatin County for the fiscal year ended June 30, 2014 and paid \$254,867 to Gallatin County.

The County also participated with the Town of Ennis, Town of Twin Bridges, and Town of Sheridan, receiving \$59,643.

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

Madison 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.

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

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:

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

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

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

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

Self Insurance

The County also provides vision insurance coverage for its employee via self-insured plan. The plan is administered by the County. It provides vision benefits and is operated as an Internal Service Fund. Rates are determined based on past claim experience. This program has been discontinued as of June 30, 2014.

Claims payable, June 30, 2013	\$ -
Claims incurred	14,861
Claims paid	<u>14,861</u>
Claims payable, June 30, 2014	\$ <u><u>-</u></u>

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

NOTE 18. SUBSEQUENT EVENTS

Madison County has been setting funds aside for a number of years in order to build a new building for offices that are currently at the County Courthouse. The new Administration Annex Building across from the courthouse began construction late June 2014. Major payments to contractors have occurred in FY 2015 related to this project.

Madison Valley Manor budgeted one million dollars for remodeling. The Manor was awarded a CDBG grant to help fund this project.

The County Library (Thompson Hickman Library) in Virginia City passed a one year six mill levy to fund a building project to expand the existing library. The construction for this project began in July 2014.

NOTE 19. SIGNIFICANT COSTRUCTION COMMITMENTS

Madison County has committed funds thus far of \$2,100,000 towards the construction of the new Administration Annex Building that will be located across from the current County Courthouse. The construction of this new annex building is currently about 60% complete with a projected completion date of early summer 2015.

NOTE 20. 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>Public Lands Access Association v. Madison County</i>	Not Stated	Not Stated
<i>Roger Staley v. Madison County Sheriff, Undersheriff and Sheriff's Deputy</i>	Not Stated	Not Stated
<i>Bank of the Rockies v. Wiseman, Madison County Treasurer, et. al.</i>	Not Stated	Not Stated
<i>Jerry and Shirley Braach v. Shelly Burke as County Treasurer of Madison County et. al.</i>	Not Stated	Not Stated
<i>The Estate of John Morris, et. al. v. Madison County and Shelly Burke</i>	Not Stated	Note Stated
<i>Andrew and Peri Suenram v. Madison County</i>	Not Stated	Not Stated

**REQUIRED SUPPLEMENTAL
INFORMATION**

Madison 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	\$ 4,028,982	\$ 4,028,982	\$ 4,103,324	\$ 74,342	
Licenses and permits	6,200	6,200	9,799	3,599	
Intergovernmental	428,502	428,502	467,735	39,233	
Charges for services	470,206	470,206	486,881	16,675	
Fines and forfeitures	70,500	70,500	78,824	8,324	
Miscellaneous	10,000	10,000	37,913	27,913	
Investment earnings	15,000	15,000	24,048	9,048	
Amounts available for appropriation	<u>\$ 5,029,390</u>	<u>\$ 5,029,390</u>	<u>\$ 5,208,524</u>	<u>\$ 179,134</u>	
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
General government	\$ 2,902,883	\$ 2,902,883	\$ 2,036,856	\$ 866,027	
Public safety	2,380,785	2,380,785	2,177,168	203,617	
Public works	-	-	-	-	
Public health	167,619	167,619	111,204	56,415	
Social and economic services	66,352	66,352	52,535	13,817	
Housing and community development	20,000	20,000	20,000	-	
Miscellaneous	200,000	200,000	196,231	3,769	
Capital outlay	4,021,068	4,021,068	465,685	3,555,383	
Total charges to appropriations	<u>\$ 9,758,707</u>	<u>\$ 9,758,707</u>	<u>\$ 5,059,679</u>	<u>\$ 4,699,028</u>	
OTHER FINANCING SOURCES (USES)					
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ -	\$ -	
Transfers in	755,946	755,946	755,523	(423)	
Transfers out	(567,824)	(567,824)	(498,237)	69,587	
Total other financing sources (uses)	<u>\$ 188,122</u>	<u>\$ 188,122</u>	<u>\$ 257,286</u>	<u>\$ 69,164</u>	
Net change in fund balance			<u>\$ 406,131</u>		
Fund balance - beginning of the year			<u>\$ 6,864,485</u>		
Fund balance - beginning of the year - restated			<u>\$ 6,864,485</u>		
Fund balance - end of the year			<u><u>\$ 7,270,616</u></u>		

Madison 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	\$ 1,492,738	\$ 1,492,738	\$ 1,565,746	\$ 73,008
Licenses and permits	-	-	-	-
Intergovernmental	200,160	200,160	575,807	375,647
Charges for services	28,600	28,600	64,465	35,865
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	13,155	13,155
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 1,721,498</u>	<u>\$ 1,721,498</u>	<u>\$ 2,219,173</u>	<u>\$ 497,675</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	2,254,613	2,254,613	2,228,667	25,946
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	510,000	510,000	290,201	219,799
Total charges to appropriations	<u>\$ 2,764,613</u>	<u>\$ 2,764,613</u>	<u>\$ 2,518,868</u>	<u>\$ 245,745</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital asset disposition	\$ -	\$ -	\$ 1,500	\$ 1,500
Transfers in	200,000	200,000	200,000	-
Transfers out	-	-	(14,667)	(14,667)
Total other financing sources (uses)	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 186,833</u>	<u>\$ (13,167)</u>
Net change in fund balance			<u>\$ (112,862)</u>	
Fund balance - beginning of the year			<u>\$ 1,136,360</u>	
Fund balance - beginning of the year - restated			<u>\$ 1,136,360</u>	
Fund balance - end of the year			<u><u>\$ 1,023,498</u></u>	

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

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

	General	Road
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 5,208,524	\$ 2,219,173
Combined funds (GASBS 54) revenues	735,234	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 5,943,758	\$ 2,219,173
Uses/Outflows of resources		
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 5,059,679	\$ 2,518,868
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 5,059,679	\$ 2,518,868

Madison 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 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, 2009	\$ -	\$ 4,797,727	\$ 4,797,727	0%	\$ 4,445,939	107.9%
July 1, 2011	\$ -	\$ 4,894,327	\$ 4,894,327	0%	\$ 5,247,876	93.3%
July 1, 2013	\$ -	\$ 3,893,440	\$ 3,893,440	0%	\$ 5,536,072	70.3%

Changes in plan provisions

Effective July 1, 2011

- Comprehensive Lifetime Max has been removed
- Preexisting Condition Waiting Period has been removed
- The definition of eligible dependent has changed
- Fully-covered In-Network Preventive Benefits have been implemented

Effective July 1, 2012

- Changed plans offered

SINGLE AUDIT SECTION

Madison 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>Direct:</i>			
Cooperative Forestry Assistance (Law Enforcement)	10.664	12-LE-11015600-027	\$ 2,814
Forest Health Protection	10.680	MDA 2013-715X	23,046
<i>Passed through State Auditor's Office:</i>			
Schools and Roads - Grants to States	10.665	N/A	367,311
Total U.S. Department of Agriculture			\$ 393,171
<u>U.S. Department of Interior</u>			
<i>Direct:</i>			
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15460	\$ 8,144
<u>U.S. Department of Justice</u>			
<i>Passed through the Montana Board of Crime Control:</i>			
Crime Victim Assistance	16.575	13-V01-91558	\$ 23,759
<u>U.S. Department of Transportation</u>			
<i>Direct:</i>			
Airport Improvement Program	20.106	DOT-FA13NM-2034	\$ 99,149
Airport Improvement Program	20.106	DOT-FA12NM-2022	115,092
Airport Improvement Program	20.106	DOT-FA14NM-2011	118,506
<i>Passed through State Department of Transportation:</i>			
Recreational Trails Program	20.219	N/A	40,500
Highway Planning and Construction	20.205	CTS-106420	6,386
Highway Planning and Construction	20.205	CTS-107090	50,000
Highway Planning and Construction	20.205	STPE29(52)	24,900
Total U.S. Department of Transportation			\$ 454,533
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through State Department of Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	14-07-6-11-031-0	\$ 32,479
Public Health Emergency Preparedness	93.069	13-07-6-11-031-0	8,559
Immunization Cooperative Agreements	93.268	13-07-4-31-126-0	2,229
Immunization Cooperative Agreements	93.268	14-07-4-31-126-0	2,229
PPHF Capacity Building Assistance to Stngthen Public Health Immunization Infrastructure and Performance financed in pary by Prevention and Public Health Funds	93.539	14-07-4-31-168-0	11,025
Maternal & Child Health Services Block Grant to the States	93.994	14-07-5-01-028-0	6,571
Total U.S. Department of Health and Human Services			\$ 63,092
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Montana Disaster & Emergency Service Division:</i>			
Hazard Mitigation Program (Moores Creek)	97.039	DR-1996-MT HMGP P-36-R	\$ 23,368
Hazard Mitigation Program (Kearney Ln)	97.039	FEMADR-1996-MT, HMGP P-39-R	2,726
Hazard Mitigation Program (Toledo Mtn Bridge)	97.039	FEMADR-1996-MT, HMGP P-39-R	2,639
Emergency Management Performance Grant (Civ Def)	97.042	EMW-2012-EP-00057-S01	37,421
State Homeland Security Program	97.067	EMW-2013-SS-00064	41,925
Total U.S. Department of Homeland Security			\$ 108,079
Total Federal Financial Assistance			\$ 1,050,778
N/A = Not Applicable or Not Available			

MADISON 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 Madison 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 County Commissioners
Madison County
Virginia City, 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 Madison County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Madison County's basic financial statements and have issued our report thereon dated February 24, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as items 14-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison 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 instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 14-2.

Madison County's Response to Findings

Madison County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Madison 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.

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

February 24, 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 County Commissioners
Madison County
Virginia City, Montana

Report on Compliance for Each Major Federal Program

We have audited Madison 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 Madison 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 Madison 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, Madison 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 Madison 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

February 24, 2015

MADISON 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?	No
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
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)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

14-1 Internal Control

Condition:

At the Ennis Nursing Home, the procedures relating to check receipting are not being adequately implemented. The daily check receipt log did not include all checks deposited.

At the Ennis Nursing Home, the procedures for determining Accounts Receivable contained a deficiency. The reported receivables did not agree to subsidiary ledgers. This was corrected for financial reporting.

The Sheridan Nursing home does not properly write off denied Medicaid claims. The Nursing Home carries on its books accounts receivables that it will not collect. This was corrected for financial reporting.

The Solid Waste Office did not properly document revenues that were received throughout the year. In addition, there was a lack of reconciling being completed between the Solid Waste Office's subsidiary ledger and what was receipted by the Treasurer's Office.

Context:

Per interviews, document inspections, transaction walkthroughs, and observations, we assessed the internal controls in various departments of the County and found that the findings described above increase the potential that the County controls would not prevent or detect and correct financial statement misstatements.

Criteria:

Strong internal controls prevent or detect and correct financial statement misstatements.

Effect:

The County lacks adequate internal control at the Ennis Nursing Home, the Sheridan Nursing Home, and the Solid Waste Office.

Cause:

The two nursing homes applied inappropriate procedures in determining their accounts receivables. The Ennis Nursing Home did not adequately implement receipting procedures relating to checks. The Solid Waste office lacks adequate segregation of duties due to the one clerk handling all receipting activities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

The Ennis Nursing home should ensure that every check that it receives is properly documented in the daily check receipt log, and it should ensure that the accounts receivables that it reports on its financial statements are represented in its subsidiary ledgers.

The Sheridan Nursing Home should write off those Accounts Receivables that it does not expect to collect.

The management of the Solid Waste office should be vigilant in monitoring the activities of their administrative assistants.

Views of Responsible Officials and Planned Corrective Action:

Condition:

At the Ennis Nursing Home, the procedures relating to check receipting are not being adequately implemented. The Daily check receipt log did not include all checks deposited.

Plan of Correction:

Checks received will be logged into the check register and double checked by the person signing the log to make sure the correct number of checks has been logged. Deposit slips are written out and compiled by the Business Office Manager. Deposits are taken to the bank by another party, usually the Administrator. Prior to making the deposit the deposit slip will be checked against the check register and the receipt book to confirm all checks have been counted and receipted.

Condition:

At the Ennis Nursing Home, the procedures for determining Accounts Receivable contained a deficiency. The reported receivables did not agree to subsidiary ledgers. This was corrected for financial reporting.

Plan of Correction:

This was a one-time discrepancy due to an extended illness and should not be repeated. The implementation of an Electronic Health Records system that includes financial software will allow for more accuracy in determining accounts receivable in the future.

TOBACCO ROOT MOUNTIANS CARE CENTER

Policy: Reviewing and determining Resident Bad Debt and Write Off of Accounts

The Administrator and Business Office Manager will meet quarterly or more often if necessary to review resident accounts.

Resident accounts determined to be bad debt or non-payable, will be forwarded to the Madison County Finance Director with the recommendation that those accounts be processed for write off. The Madison County Attorney's Office may be requested to assist in legal matters pertaining to the investigation and filing of legal documents for the purpose of reclaiming revenue that is due to TRMCC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

The Business Office Manager will keep a log of all resident write offs and will forward this log to the Finance Director the last day of the fiscal year.

January 27, 2015

Madison County Solid Waste office was under transition for the Clerk position. The Solid Waste Office has now hired a new clerk. The office will reconcile all subsidiary ledgers with the Treasurer's Office. All revenues will be coded correct and double checked by another person.

14-2 Tax Levy Requirement Schedule

Condition:

The reserves requirement represented in the clients schedule for the Airport is over the MCA (7-6-4034) threshold.

Context:

The tax levy requirement schedule indicated that the Airport reserve requirement was over the 33% of appropriations threshold required by MCA 7-6-4034. MCA 7-6-4034 states "(2) After deducting from the amount of the appropriations and authorized expenditures the total amount appropriated and authorized to be spent for election expenses and payment of emergency warrants, the amount that may be added as a reserve: (a) a county's fund may not exceed one-third of the total amount appropriated and authorized to be spent from the fund during the current fiscal year." The cash reserve per the schedule is 129% of the appropriations, which is above the MCA threshold by 96%.

Criteria:

Compliance with applicable laws and regulations ensures the interests of the client's users are protected.

Effect:

County is not in compliance with the budget laws and regulations, and potentially levying more than is needed.

Cause:

Tax levy requirement schedule is included in original budget that contains estimated numbers. Estimated cash reserve was inappropriately estimated. Had the County placed this in a Capital Projects fund this would not have occurred.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

Review the schedule and manually calculate the percentage of cash reserves to appropriations to ensure that it is within the 33% threshold. The County should budget expenditures at a higher amount if major expenditures are expected to occur.

Views of Responsible Officials and Planned Corrective Action:

January 27, 2015

Plan of Correction for Financial Statement Finding
Madison County

Condition:

The reserves requirement represented in the clients schedule for the Airport is over the MCA (7-6-4034) threshold.

Plan of Correction:

Madison County will adhere to the recommendation of the auditor by reviewing cash at fiscal yearend to ensure that cash reserves are within the 33% threshold.

Reasoning:

Madison County does review the tax levy requirement schedule upon preparation and is aware of the 33% threshold. The reason cash exceeded is there was a delay in starting the project at the airport.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.