

**McCONE COUNTY  
CIRCLE, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

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TABLE OF CONTENTS

	<u>Page No.</u>
ORGANIZATION .....	1
INDEPENDENT AUDITOR'S REPORT .....	2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion & Analysis .....	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position .....	7
Statement of Activities .....	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	12
Statement of Net Position - Fiduciary Funds .....	13
Statement of Changes in Net Position - Fiduciary Fund .....	14
Notes to Basic Financial Statements .....	15
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund .....	24
Road Fund .....	25
Library Fund .....	26
Allocated Fed. Mineral Royalties Fund .....	27
Notes to Required Supplementary Information .....	28
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	29
SCHEDULE OF FINDINGS .....	31
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS .....	33

McCONE COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Connie Eissinger	Presiding Officer
James Moos	Commissioner
Janet Wolff	Commissioner

ELECTED OFFICIALS

Maridel Kassner	County Clerk and Recorder
Jackie Becker	County Treasurer/Superintendent
Dave Harris	County Sheriff/Coroner
Kendall Link	County Attorney
Debra Porter	Clerk of District Court
Sally Hickok	Justice of the Peace

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners  
McCone County  
Circle, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCone County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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.

### Basis for Qualified Opinion

Management has not recorded depreciation expense in the governmental activities. Accounting principles generally accepted in the United States of America require that depreciation expense be recorded. The amounts by which this departure would affect the assets, net position and expenses of the governmental activities are not reasonably determinable.

Management has not recorded the other post employment benefit (OPEB) liability and related expense. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities, decrease net position and change expenses for the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities is not reasonably determinable.

Because of inadequacies in the government's accounting records, we were unable to form an opinion regarding the amounts at which capital assets were recorded in the governmental activities as of June 30, 2014.

INDEPENDENT AUDITOR'S REPORT (Continued)

Qualified Opinions

In our opinion, except for the effects of the matters described in the first and second paragraphs under the heading "Basis for Qualified Opinion" and except for the possible effects of the matter discussed in the third paragraph under the heading "Basis for Qualified Opinion", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the government, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the government as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information identified in the table of contents 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the table of contents 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. Although our opinions on the basic financial statements are not affected, the following material departure from the prescribed guidelines exist; the management's discussion and analysis is not in conformity with accounting principles generally accepted in the United States because it did not contain all of the elements required by GASB Statement No. 34, as amended by GASB Statement No. 37. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2015, on our consideration of the government'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 the government's internal control over financial reporting and compliance.

*O'Hess & Associates, PC*

Billings, Montana  
May 11, 2015

McCONE COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

As Commissioners of McCone County, we offer readers an overall review of the County's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the County's financial performance.

**Financial Highlights**

- McCone County assets exceeded the liabilities at the end of fiscal year 2013-2014 by \$14,983,892.
- Overall revenues from all sources for McCone County for the 2013-2014 fiscal year were \$4,274,178 which represented a 29% increase from the 2012-2013 fiscal year. McCone County expenses for the 2013-2014 fiscal year were \$3,114,058 which represents a 1% increase from the 2012-2013 fiscal year.
- Federal/state shared revenues make up approximately 23% of the total revenue, while 44% of McCone County revenue comes from property taxes at the local level.
- Overall net position increased by \$1,160,120 at the close of fiscal year 2014.
- The McCone County capital assets (property, equipment and infrastructure) has \$784,501 of related debt for the payments on graders, fair building, F-250 pickups, airport project and the courthouse electrical upgrade.
- The County had total governmental fund balances of \$2,113,325 at the end of the fiscal year.
- Total expenses for the County separated by category showed that \$1,137,396 was spent for general government, \$528,043 for public safety, \$785,512 for public works, \$372,414 for public health, \$145,479 for social and economic services and \$104,397 for culture and recreation.
- Capital assets increased by \$789,825.

**Using this Audit Report**

This audit report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand McCone County as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions. More detailed information for certain funds reported as "major funds"(governmental funds) include: General, Public Safety, Public Works, Public Health, Social and Economic services, Culture and Recreation, Debt Service and Miscellaneous services.

The Statement of Net Position and Statement of Activities provide information about the activities of the entire county. Net position is the difference between assets and liabilities. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the County's property tax base and the condition of the County's infrastructure.

**Overview of the Financial Statements**

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities are designed to provide the readers with a broad overview of McCone County's finances in a manner similar to a private-sector business. The government-wide financial statements distinguish functions of McCone County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities"). Governmental activities of McCone County include a full range of local government services as provided to the public, such as law enforcement, public works, cemetery, health services, aging services, museum, fair and extension. A comparative analysis of government-wide data is presented with this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. McCone County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County funds can be divided into two categories: governmental and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. The basic governmental fund financial statements can be found on pages 9 through 12 of this report. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

McCONE COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support McCone County's own programs.

**The Government as a Whole**

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. The following net position and changes in net position schedules provide summaries of the County's governmental activities.

NET POSITION:	2014	2013	Change
Current and other assets	\$ 2,237,729	\$ 1,886,783	\$ 350,946
Capital assets	13,691,312	12,901,487	789,825
Total assets	<u>15,929,041</u>	<u>14,788,270</u>	<u>1,140,771</u>
Other liabilities	51,185	13,884	37,301
Long-term liabilities	893,964	950,614	(56,650)
Total liabilities	<u>945,149</u>	<u>964,498</u>	<u>(19,349)</u>
Net position			
Net investment in capital assets	12,906,811	12,080,373	826,438
Restricted	1,215,156	1,139,464	75,692
Unrestricted	<u>861,925</u>	<u>603,935</u>	<u>257,990</u>
Total net position	<u>\$ 14,983,892</u>	<u>\$ 13,823,772</u>	<u>\$ 1,160,120</u>

As the reader will note, the largest portion of McCone County's net position reflects its net investment in capital assets (land, buildings, equipment, etc.). Because McCone County uses these capital assets to provide services to its citizens, they are not available for future spending. The balance of unrestricted net position (\$861,925) may be used to meet the ongoing obligations of the county to citizens and creditors.

**CHANGES IN NET POSITION:**

	2014	2013	Change
Revenues:			
Program revenues:			
Charges for services	\$ 324,686	\$ 269,222	\$ 55,464
Operating grants and contributions	481,556	419,868	61,688
Capital grants and contributions	534,488	-	534,488
General revenues:			
Taxes	1,865,563	1,835,957	29,606
Licenses and permits	2,995	5,000	(2,005)
Intergovernmental	967,515	636,410	331,105
Interest	12,689	10,830	1,859
Miscellaneous	84,686	127,513	(42,827)
Total revenues	<u>4,274,178</u>	<u>3,304,800</u>	<u>969,378</u>
Expenses:			
General government	1,137,396	1,050,850	86,546
Public safety	528,043	583,768	(55,725)
Public works	785,512	770,550	14,962
Public health	372,414	342,864	29,550
Social and economic services	145,479	135,596	9,883
Culture and recreation	104,397	98,196	6,201
Other current charges	12,999	74,746	(61,747)
Interest on long-term debt	27,818	22,478	5,340
Total expenses	<u>3,114,058</u>	<u>3,079,048</u>	<u>35,010</u>
Change in net position	1,160,120	225,752	934,368
Net position, beginning	<u>13,823,772</u>	<u>13,598,020</u>	<u>225,752</u>
Net position, ending	<u>\$ 14,983,892</u>	<u>\$ 13,823,772</u>	<u>\$ 1,160,120</u>

McCONE COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

Net position for the governmental activities increased \$1,160,120 as of June 30, 2014. The increase occurred because of capital grants and an increase in State Allocated Fed. Mineral Royalties revenue. This revenue source was not spent by year-end.

**Governmental Funds**

The general fund is the main operating fund of McCone County. At the end of the fiscal year, the General Fund had a fund balance of \$295,443. The total General fund fund balance decreased by \$14,073.

***Governmental Fund Financial Statements***

Fund based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements were prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The 2014 governmental balance sheet demonstrates that McCone County is in sound financial condition. The County has considerable amounts of cash and investments. The County has a minimal amount of liabilities attached to these funds. The McCone County fund balances would seem to be strong enough to resolve any reasonable financial situation that could occur. The actual balance sheet is found on page 9 of this report.

***Statement of Revenues, Expenditures, and Changes in Fund Balances***

Intergovernmental revenues, charges for services, and fines and forfeitures are the major revenue sources for the general fund category. The major expenditure in the General Fund is general government. General government expenditures make up 65% of the General Fund total costs for fiscal year 2014. Public Health and Public Safety rank second and third respectively for the general fund expenditures. The total fund balances increased \$375,558. The statement of revenues, expenditures, and changes in fund balances can be found on page 11 of this report.

***General Fund Budgetary Highlights***

During the 2013-2014 budget year, McCone County experienced a positive variance in the General Fund Budget revenues of approximately \$73,000. Much of the increase came from receiving more in federal grants and state shared revenue. The total General Fund budgeted expenditures had a positive variance of \$80,321.

**Capital Asset and Debt Administration**

The capital assets of the County are those assets that are used in the performance of the counties functions. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment. As of June 30, 2014, capital assets, net of related debt, are \$12,906,811. For additional information related to capital assets of the county, please refer to the notes to the basic financial statements. The County's long-term obligation on notes is \$784,501. This debt was incurred for the purpose of road equipment, courthouse electrical upgrade, sheriff's vehicle, fair kitchen building, computer software upgrades and the airport runway project.

**The Government's Future**

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

The County is committed to maintaining a long-term capital improvement plan, with a primary function of protecting and replacing infrastructure and equipment. The County Library has had a stabilization of the foundation began this year. From there, other projects on the building will be done as funds become available such as new steps, sidewalks, ramp, and electrical upgrade.

Melvin and Kay Johnson, McCone County taxpayers, donated funds to build a new fire hall. It is located at a better location and a beautiful facility. What a wonderful gift!

The Health Center has asked for continued levies for their operations and was once again voted in support for four more years.

The fair kitchen project continues to need support for ongoing projects such as ceiling tiles for acoustical issues, grill hood, and other minor projects.

The road fund struggles with competing wages with the Bakken to find and keep employees. Equipment is needing to be upgraded, but the road fund is levied to the maximum allowed.

**Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have a question concerning this report or need additional financial information, contact the Clerk and Recorder's office at the McCone County Courthouse.

McCONE COUNTY  
STATEMENT OF NET POSITION  
June 30, 2014

ASSETS	
Cash and equivalents	\$ 1,222,776
Investments	941,734
Receivables:	
Taxes and assessments	73,219
Capital assets:	
Land and construction in progress	493,321
Capital assets, net of accumulated depreciation	<u>13,197,991</u>
Total assets	<u>15,929,041</u>
LIABILITIES	
Accounts payable-vendors	51,185
Long-term liabilities:	
Due within one year:	
Notes	138,802
Compensated absences	10,946
Due in more than one year:	
Notes	645,699
Compensated absences	<u>98,517</u>
Total liabilities	<u>945,149</u>
NET POSITION	
Net investment in capital assets	12,906,811
Restricted for:	
General government	107,254
Public safety	374,847
Public works	474,383
Public health	74,688
Social and economic services	14,181
Culture and recreation	36,956
Capital projects	132,847
Unrestricted	<u>861,925</u>
Total net position	<u>\$ 14,983,892</u>

McCONE COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,137,396	\$ 58,720	\$ 4,868	\$ -	\$ (1,073,808)
Public safety	528,043	123,376	136,583	515,281	247,197
Public works	785,512	5,168	102,712	-	(677,632)
Public health	372,414	136,846	73,939	-	(161,629)
Social and economic services	145,479	10	64,070	-	(81,399)
Culture and recreation	104,397	566	99,384	19,207	14,760
Other current charges	12,999	-	-	-	(12,999)
Interest on long-term debt	27,818	-	-	-	(27,818)
<b>Total</b>	<b>\$ 3,114,058</b>	<b>\$ 324,686</b>	<b>\$ 481,556</b>	<b>\$ 534,488</b>	<b>(1,773,328)</b>

General revenues:	
Property taxes	1,865,563
Licenses and permits	2,995
Intergovernmental	967,515
Unrestricted investment earnings	12,689
Miscellaneous	84,686
<b>Total general revenues</b>	<b>2,933,448</b>
 Change in net position	 1,160,120
 Net position - beginning	 13,823,772
 Net position - ending	 <b>\$ 14,983,892</b>

McCONE COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Road	Library	State Allocated Fed. Mineral Royalties	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 166,902	\$ 150,340	\$ 10,224	\$ 219,209	\$ 676,101	\$ 1,222,776
Investments	128,541	115,785	7,875	168,826	520,707	941,734
Receivables:						
Taxes and assessments	15,896	7,901	1,916	-	47,506	73,219
<b>Total assets</b>	<b>\$ 311,339</b>	<b>\$ 274,026</b>	<b>\$ 20,015</b>	<b>\$ 388,035</b>	<b>\$ 1,244,314</b>	<b>\$ 2,237,729</b>
<b>LIABILITIES</b>						
Accounts payable-vendors	\$ -	\$ -	\$ 45,834	\$ -	\$ 5,351	\$ 51,185
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>45,834</b>	<b>-</b>	<b>5,351</b>	<b>51,185</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue-taxes and assessments	15,896	7,901	1,916	-	47,506	73,219
<b>Total deferred inflows of resources</b>	<b>15,896</b>	<b>7,901</b>	<b>1,916</b>	<b>-</b>	<b>47,506</b>	<b>73,219</b>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted for:						
General government	-	-	-	-	89,008	89,008
Public safety	-	-	-	-	367,891	367,891
Public works	-	266,125	-	-	192,231	458,356
Public health	-	-	-	-	63,911	63,911
Social and economic services	-	-	-	-	11,770	11,770
Culture and recreation	-	-	-	-	35,966	35,966
Capital projects	-	-	-	-	132,847	132,847
Committed for:						
General government	-	-	-	388,035	162,695	550,730
Public safety	-	-	-	-	4	4
Social and economic services	-	-	-	-	7,636	7,636
Culture and recreation	-	-	-	-	130,922	130,922
Unassigned	295,443	-	(27,735)	-	(3,424)	264,284
<b>Total fund balances (deficits)</b>	<b>295,443</b>	<b>266,125</b>	<b>(27,735)</b>	<b>388,035</b>	<b>1,191,457</b>	<b>2,113,325</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 311,339</b>	<b>\$ 274,026</b>	<b>\$ 20,015</b>	<b>\$ 388,035</b>	<b>\$ 1,244,314</b>	<b>\$ 2,237,729</b>

McCONE COUNTY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014

Total fund balances, governmental funds	\$ 2,113,325
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	13,691,312
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenues in the funds.	73,219
Some liabilities, including notes payable and compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(893,964)</u>
Net position of governmental activities	<u>\$ 14,983,892</u>

McCONE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Road	Library	State Allocated Fed. Mineral Royalties	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes/assessments	\$ 380,645	\$ 251,256	\$ 54,207	\$ -	\$ 1,309,447	\$ 1,995,555
Fines and forfeitures	11,278	-	166	-	-	11,444
Licenses and permits	400	-	-	-	2,787	3,187
Intergovernmental	231,422	128,200	13,952	416,691	536,110	1,326,375
Charges for services	123,979	-	-	-	120,242	244,221
Investment earnings	1,637	1,209	-	3,111	6,723	12,680
Miscellaneous	39,241	4,675	-	-	202,432	246,348
<b>Total revenues</b>	<b>788,602</b>	<b>385,340</b>	<b>68,325</b>	<b>419,802</b>	<b>2,177,741</b>	<b>3,839,810</b>
<b>EXPENDITURES</b>						
Current:						
General government	582,994	-	-	806	554,739	1,138,539
Public safety	82,408	-	-	-	445,901	528,309
Public works	-	422,536	-	-	383,121	805,657
Public health	168,717	-	-	-	203,340	372,057
Social and economic services	2,000	-	-	-	142,091	144,091
Culture and recreation	14,472	-	66,927	-	23,226	104,625
Other current charges	9,668	-	-	-	3,331	12,999
Debt service:						
Principal	22,068	335,770	-	-	65,328	423,166
Interest and other charges	164	13,142	-	-	14,512	27,818
Capital outlay	11,249	56,370	68,750	-	157,175	293,544
<b>Total expenditures</b>	<b>893,740</b>	<b>827,818</b>	<b>135,677</b>	<b>806</b>	<b>1,992,764</b>	<b>3,850,805</b>
Excess (deficiency) of revenues over expenditures	(105,138)	(442,478)	(67,352)	418,996	184,977	(10,995)
<b>OTHER FINANCING SOURCES (USES)</b>						
Long-term debt issued	-	348,912	-	-	37,641	386,553
Transfers in	95,000	101,226	27,916	-	86,935	311,077
Transfers out	(3,935)	-	-	(39,142)	(268,000)	(311,077)
<b>Total other financing sources (uses)</b>	<b>91,065</b>	<b>450,138</b>	<b>27,916</b>	<b>(39,142)</b>	<b>(143,424)</b>	<b>386,553</b>
<b>Net change in fund balances</b>	<b>(14,073)</b>	<b>7,660</b>	<b>(39,436)</b>	<b>379,854</b>	<b>41,553</b>	<b>375,558</b>
Fund balances - beginning	309,516	258,465	11,701	8,181	1,149,904	1,737,767
<b>Fund balances - ending</b>	<b>\$ 295,443</b>	<b>\$ 266,125</b>	<b>\$ (27,735)</b>	<b>\$ 388,035</b>	<b>\$ 1,191,457</b>	<b>\$ 2,113,325</b>

McCONE COUNTY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ 375,558
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which capital outlay (\$293,544) exceeded depreciation (\$0) in the current period.	293,544
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net position.	496,281
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(61,913)
<p>Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which debt repaid exceeded the amount of debt issued.</p>	
	36,613
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	20,037
Change in net position of governmental activities	\$ 1,160,120

McCONE COUNTY  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	External Investment Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,633,773	\$ 173,243
Investments	1,358,266	-
Taxes and assessments receivable	-	100,801
Total assets	2,992,039	\$ 274,044
<b>LIABILITIES</b>		
Accounts payable	-	\$ 12,488
Due to other governments:		
Special districts	-	15,417
State	-	60,509
Schools	-	158,938
Cities/towns	-	26,692
Total liabilities	-	\$ 274,044
<b>NET POSITION</b>		
Held in trust	\$ 2,992,039	

McCONE COUNTY  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2014

	External Investment Trust Fund
ADDITIONS	
Contribution to investment trust	\$ 3,141,971
Total contributions	3,141,971
Investment earnings:	
Interest	19,369
Total net investment earnings	19,369
Total additions	3,161,340
DEDUCTIONS	
Withdrawals	2,724,471
Total deductions	2,724,471
Change in net position	436,869
Net position - beginning	2,555,170
Net position - ending	\$ 2,992,039

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

Related Organizations - The Board of County Commissioners is responsible for appointing members of the boards of other organizations, but the government's accountability for these organizations does not extend beyond making the appointments.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major:

The road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance, repair and construction of county-owned roads.

The library fund accounts for resources accumulated from property taxes and state entitlement and payments made for the operation and maintenance of the county-owned library.

The allocated fed. mineral royalties fund accounts for resources accumulated from the State of Montana for mineral royalty payments. Payments made from the fund are at the discretion of the Board of County Commissioners.

Additionally, the government reports the following fund types:

The government's investment trust fund accounts for the external portion of the cash management pool, which represents resources that belong to legally separate entities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

The County maintains and controls an investment pool consisting of funds belonging to the government and also of funds held by the County Treasurer belonging to legally separate entities, such as school districts, fire and water districts and other special districts. The investment pool is managed by the County Treasurer and overseen by the Board of County Commissioners. The County Treasurer is responsible for setting the investment policies for the pool, reviewing and monitoring investments to ensure the County's investment policies are met and ensuring investments are in compliance with State statute.

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 56 percent of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

Investments in the pool are reported at cost, which approximates fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Investment income from the pool is allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of each month. The net change in fair value of the pool is also allocated to individual funds of the County and to the external participants based on the fund or participant's cash and investment balance at the end of the year.

Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Inventories

Inventory items purchased are recorded as expenses/expenditures at the time of purchase. Inventory at year-end was not material and therefore not recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on capital assets is not recorded.

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under State statute to a maximum accumulation of two times the amount earned annually. Sick leave is accumulated at 12 days per year with no limitations on the amount that may be accumulated. Upon retirement or resignation, an employee is eligible for 100 percent of the accumulated vacation leave and 25 percent of the accumulated sick leave.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the Clerk and Recorder, along with the County Commissioners, to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The MRTC (\$3,424) and Library (\$27,735) funds had deficit fund balances as of June 30, 2014. The deficit in the MRTC fund is a carryover from the prior year. Management is determining the best method to eliminate the deficit. The deficit in the Library fund is the result of excess expenditures over revenues. The deficit is expected to be eliminated through a loan from INTERCAP.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

The government's cash, cash equivalents and investments are reported as follows:

Governmental activities	\$ 2,164,510
Fiduciary funds	<u>3,165,282</u>
	<u>\$ 5,329,792</u>

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2014, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 400	\$ -	\$ 400
Cash in banks:			
Demand deposits	259,392	-	259,392
Time deposits	-	1,500,000	1,500,000
Savings	1,600,000	-	1,600,000
Brokers:			
U.S. Government Securities	-	800,000	800,000
Short-term Investment Program (STIP)	1,170,000	-	1,170,000
	<u>\$ 3,029,792</u>	<u>\$ 2,300,000</u>	<u>\$ 5,329,792</u>

*Custodial Credit Risk—Deposits.* 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. As of June 30, 2014, \$2,435,409 of the government's bank balance of \$3,685,775 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 378,311
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>2,057,098</u>
	<u>\$ 2,435,409</u>

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

The investment pool portfolio as of June 30, 2014 consisted of time deposits and U.S. government securities with various maturities. The interest rate ranged from .9 to 2.1 percent.

*Interest Rate Risk.* The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment 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.

*Credit Risk.* Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The government has no investment policy that would further limit its investment choices. The Short-Term Investment Pool (STIP) maintained by the State of Montana has certain investments in derivatives. GASB requires the nature of the underlying securities and market, credit and legal risks be disclosed. Reference to the audit of the State of Montana would identify the level of risk associated with STIP.

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; Category 3-Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. government securities	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 800,000	\$ 800,347
STIP				<u>1,170,000</u>	<u>1,170,000</u>
				<u>\$ 1,970,000</u>	<u>\$ 1,970,347</u>

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Following is the condensed schedule of changes in net position for the investment pool for the year ended June 30, 2014:

	Internal	External	Total
Net position - beginning of year	\$ 1,828,179	\$ 2,555,170	\$ 4,383,349
Contributions from participants	2,055,029	3,141,971	5,197,000
Investment earnings	12,680	19,369	32,049
Distributions to participants	(1,558,135)	(2,724,471)	(4,282,606)
Net position - end of year	<u>\$ 2,337,753</u>	<u>\$ 2,992,039</u>	<u>\$ 5,329,792</u>

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 313,552	\$ 10,094	\$ -	\$ 323,646
Construction-in-progress	100,925	68,750	-	169,675
Total capital assets, not being depreciated	<u>414,477</u>	<u>78,844</u>	<u>-</u>	<u>493,321</u>
Depreciable capital assets:				
Buildings/improvements	6,128,712	534,037	-	6,662,749
Infrastructure	294,917	-	-	294,917
Machinery and equipment	6,063,381	176,944	-	6,240,325
Total depreciable capital assets	<u>12,487,010</u>	<u>710,981</u>	<u>-</u>	<u>13,197,991</u>
Capital assets	<u>\$ 12,901,487</u>	<u>\$ 789,825</u>	<u>\$ -</u>	<u>\$ 13,691,312</u>

The government does not record depreciation on its capital assets.

Long-Term Debt

Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
Road vehicle-2010 (1)	\$ 26,148	5 yr	1.00%	\$ 5,571
Sheriff vehicle-2014 (1)	37,641	5 yr	1.00%	37,641
2 graders-2012	334,802	6 yr	3.20%	267,258
Airport-2008	40,000	10 yr	4.13%	12,000
Sheriff vehicle-2011	22,877	3 yr	1.00%	3,908
Fair improvements-2011	125,000	10 yr	1.00%	85,728
Sheriff vehicle-2013	29,230	5 yr	1.00%	23,483
Grader refinance-2014 (1)	348,912	5 yr	1.00%	<u>348,912</u>
				<u>\$ 784,501</u>

(1) Through Montana Board of Investments. Interest adjusted each March, up to 15 percent.

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 138,802	\$ 14,008	\$ 152,810
2016	131,349	11,881	143,230
2017	133,470	9,726	143,196
2018	267,822	7,975	275,797
2019	92,308	899	93,207
2020-2021	20,750	208	20,958
	<u>\$ 784,501</u>	<u>\$ 44,697</u>	<u>\$ 829,198</u>

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Notes payable	\$ 821,114	\$ 386,553	\$ (423,166)	\$ 784,501	\$ 138,802
Compensated absences	129,500	-	(20,037)	109,463	10,946
Total long-term liabilities	<u>\$ 950,614</u>	<u>\$ 386,553</u>	<u>\$ (443,203)</u>	<u>\$ 893,964</u>	<u>\$ 149,748</u>

Compensated absences are generally liquidated by the fund in which the employees wage is charged. Notes payable are liquidated by the general, airport and option tax CIP funds.

Interfund Transfers

Interfund transfers consisted of the following

	Transfer In	Transfer Out
General	\$ 95,000	\$ (3,935)
Road	101,226	-
Library	27,916	-
State Allocated Fed. Mineral Royalties	-	(39,142)
Nonmajor governmental funds	86,935	(268,000)
	<u>\$ 311,077</u>	<u>\$ (311,077)</u>

Transfers are used to distribute PILT and State Allocated Fed. Mineral Royalties revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations. Additionally, transfers were made to finance future capital improvements and grant matching requirements.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Interlocal Agreements

The County provides dispatch and law enforcement services to the Town of Circle. During fiscal year 2014, the County received \$84,000 for the services. The City-County Airport is owned and operated jointly by the Town of Circle and McCone County. The operation of the airport is accounted for by the County as a special revenue fund. All capital assets are recorded within the County's accounting records. The airport is administered and budgets are approved by the controlling board members from the Town and County. The Airport Board exercises control over the airports normal operations.

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans. The Sheriff's Retirement System (SRS) covers the County Sheriff, Undersheriff and Deputy Sheriffs of the County. The Public Employees Retirement System (PERS) covers other County employees. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

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

	Employer	Employee	Total
SRS	10.115%	9.245%	19.360%
PERS	8.070%	7.900%	15.970%

PERS:

On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .1% to the PERS plans on behalf of the employer. The State of Montana contribution has not been recorded in the financial statements.

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

	2014	2013	2012
SRS	\$ 32,819	\$ 31,012	\$ 27,954
PERS	166,975	134,823	123,094
	\$ 199,794	\$ 165,835	\$ 151,048

McCONE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

McCONE COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual
	Original	Final	
<b>REVENUES</b>			
Taxes/assessments	\$ 370,688	\$ 370,688	\$ 380,645
Fines and forfeitures	12,500	12,500	11,278
Licenses and permits	200	200	400
Intergovernmental	209,650	216,089	231,422
Charges for services	79,328	79,328	123,979
Investment earnings	1,500	1,500	1,637
Miscellaneous	30,200	34,641	39,241
<b>Total revenues</b>	<b>704,066</b>	<b>714,946</b>	<b>788,602</b>
<b>EXPENDITURES</b>			
Current:			
General government	665,768	642,458	582,994
Public safety	78,767	85,910	82,408
Public health	175,892	185,576	168,717
Social and economic services	3,500	3,500	2,000
Culture and recreation	15,670	15,938	14,472
Other current charges	500	9,695	9,668
Debt service:			
Principal	22,069	22,069	22,068
Interest and other charges	165	165	164
Capital outlay	8,000	8,750	11,249
<b>Total expenditures</b>	<b>970,331</b>	<b>974,061</b>	<b>893,740</b>
Excess (deficiency) of revenues over expenditures	(266,265)	(259,115)	(105,138)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	95,000	95,000	95,000
Transfers out	(3,935)	(11,085)	(3,935)
<b>Total other financing sources (uses)</b>	<b>91,065</b>	<b>83,915</b>	<b>91,065</b>
<b>Net change in fund balance</b>	<b>\$ (175,200)</b>	<b>\$ (175,200)</b>	<b>(14,073)</b>
Fund balance - beginning			309,516
Fund balance - ending			<b>\$ 295,443</b>

McCONE COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Road Fund  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual
	Original	Final	
<b>REVENUES</b>			
Taxes/assessments	\$ 247,177	\$ 247,177	\$ 251,256
Intergovernmental	90,000	90,000	128,200
Investment earnings	1,000	1,000	1,209
Miscellaneous	900	900	4,675
<b>Total revenues</b>	<b>339,077</b>	<b>339,077</b>	<b>385,340</b>
<b>EXPENDITURES</b>			
Current:			
Public works	505,768	507,025	422,536
Debt service:			
Principal	-	-	335,770
Interest and other charges	-	-	13,142
Capital outlay	53,000	400,655	56,370
<b>Total expenditures</b>	<b>558,768</b>	<b>907,680</b>	<b>827,818</b>
Excess (deficiency) of revenues over expenditures	(219,691)	(568,603)	(442,478)
<b>OTHER FINANCING SOURCES</b>			
Long-term debt issued	-	348,912	348,912
Transfers in	109,500	109,500	101,226
<b>Total other financing sources</b>	<b>109,500</b>	<b>458,412</b>	<b>450,138</b>
<b>Net change in fund balance</b>	<b>\$ (110,191)</b>	<b>\$ (110,191)</b>	<b>7,660</b>
Fund balance - beginning			258,465
Fund balance - ending			<b>\$ 266,125</b>

McCONE COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Library Fund  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual
	Original	Final	
<b>REVENUES</b>			
Taxes/assessments	\$ 54,276	\$ 54,276	\$ 54,207
Fines and forfeitures	200	200	166
Intergovernmental	10,952	11,952	13,952
Miscellaneous	-	22,916	-
Total revenues	<u>65,428</u>	<u>89,344</u>	<u>68,325</u>
<b>EXPENDITURES</b>			
Current:			
Culture and recreation	70,829	94,745	66,927
Capital outlay	-	45,834	68,750
Total expenditures	<u>70,829</u>	<u>140,579</u>	<u>135,677</u>
Excess (deficiency) of revenues over expenditures	<u>(5,401)</u>	<u>(51,235)</u>	<u>(67,352)</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	5,000	5,000	27,916
Total other financing sources	<u>5,000</u>	<u>5,000</u>	<u>27,916</u>
Net change in fund balance	<u>\$ (401)</u>	<u>\$ (46,235)</u>	(39,436)
Fund balance - beginning			<u>11,701</u>
Fund balance - ending			<u>\$ (27,735)</u>

McCONE COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
State Allocated Fed. Mineral Royalties Fund  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Intergovernmental	\$ 402,889	\$ 402,889	\$ 416,691
Investment earnings	-	-	3,111
Total revenues	<u>402,889</u>	<u>402,889</u>	<u>419,802</u>
EXPENDITURES			
Current:			
General government	<u>386,569</u>	<u>371,919</u>	<u>806</u>
Total expenditures	<u>386,569</u>	<u>371,919</u>	<u>806</u>
Excess (deficiency) of revenues over expenditures	<u>16,320</u>	<u>30,970</u>	<u>418,996</u>
OTHER FINANCING USES			
Transfers out	<u>(24,500)</u>	<u>(39,150)</u>	<u>(39,142)</u>
Total other financing uses	<u>(24,500)</u>	<u>(39,150)</u>	<u>(39,142)</u>
Net change in fund balance	<u>\$ (8,180)</u>	<u>\$ (8,180)</u>	379,854
Fund balance - beginning			<u>8,181</u>
Fund balance - ending			<u>\$ 388,035</u>

McCONE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2014

BUDGETARY INFORMATION

Money may not be disbursed, expended or obligated except pursuant to an appropriation for which working capital is or will be available. The final budget is legally enacted by the governing body by the first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of County Commissioners  
McCone County  
Circle, 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, the business-type activities, each major fund, and the aggregate remaining fund information of McCone County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 11, 2015. The report on governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense and depreciation expense on its capital assets. Additionally, the report on governmental activities was qualified because adequate capital asset records were not maintained.

### Internal Control over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 through 2014-004)

### Compliance and Other Matters

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

### The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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 (CONTINUED)

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.

*O'ness & Associates, PC*

Billings, Montana  
May 11, 2015

McCONE COUNTY  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2014-003. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities liabilities are understated, net position is overstated and expenses would change.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

2014-004. CAPITAL ASSETS

Criteria: U.S generally accepted accounting principles and grant terms and conditions require property acquisitions, dispositions and related records for capital assets to be maintained and depreciation expense recorded.

Condition: Property acquisitions, dispositions and related records for capital assets are not maintained in conformity with accounting principles generally accepted in the United States of America and grant terms and conditions. Additionally, depreciation is expense is not recorded.

Cause: Unknown.

McCONE COUNTY  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2014

Effect: The audit opinion is qualified and internal control is weakened.

Recommendation: The County should continue their efforts in developing procedures that will provide for capital assets to be recorded in conformity with accounting principles generally accepted in the United States of America and grant terms and conditions. Capital assets should also be depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible assets such as land and land improvements should not be depreciated. Depreciation should be reported in the government-wide statement of activities.

McCONE COUNTY  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-3. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-4. CAPITAL ASSETS	NOT IMPLEMENTED
2013-5. RECONCILE PAYROLL CLEARING FUND	IMPLEMENTED
2013-6. RECONCILE PAYROLL WAGE BASES	IMPLEMENTED
2013-7. RECONCILE PAYROLL TO THE GENERAL LEDGER	IMPLEMENTED
2013-8. COMPETITIVE BIDDING	IMPLEMENTED