

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Phillips County
County Seat – Malta, MT

June 30, 2014

Phillips County

June 30, 2014

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Phillips County

June 30, 2014

ELECTED OFFICIALS

BOARD OF COUNTY COMMISSIONERS

Lesley Robinson	Chairperson
Richard Dunbar	Commissioner
Bruce Christofferson	Commissioner

COUNTY OFFICIALS

Edward Amestoy	County Attorney
Marian S. Ereaux	Clerk and Recorder
Iris Robinson	Clerk of Court
Gary A. Taylor	Justice of the Peace
Scott Moran	Sheriff/Coroner
Vivian Taylor	Superintendent of Schools
Jean Mavencamp	Treasurer/Assessor

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Phillips County
PO Box 360
Malta, MT 59538

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 Phillips County (the County), 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

The County's 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 County'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 County'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, business-type activities, each major fund, and the aggregate remaining fund information of the County 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.

EMPHASIS-OF-MATTER

As discussed in Note K to the financial statements, the June 30, 2014 financial statements have been restated to correct a misstatement. 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 and budgetary comparison information (as referenced 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 supplemental 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015 on our consideration of the County's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP
Helena, Montana
June 22, 2015

Phillips County

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

Phillips County (the County) is located in North central Montana with the border of Saskatchewan, Canada to the north and the Missouri River to the south. Valley County borders to the east and Blaine County to the west. Total acres in the County are 3,335,680 acres of which 1.7 million acres are private mingled with 1.6 million public acres of which 6% is owned by the State of Montana and 43% is federally owned. Population is unofficially 4,179 from the US census. Land use in the county is primarily farming and ranching, with historic mining in the Little Rockies.

FINANCIAL HIGHLIGHTS

The County remains in a very sound financial condition.

The County's net position of its governmental activities funds exceeded its liabilities June 30, 2014, by \$17,306,305. Of this amount \$4,233,387 (unrestricted net position) may be used to meet the County's ongoing obligations. \$7,850,205 is invested in capital assets, net of related debt. \$971,452 is carried in inventories which include stockpiled gravel.

The net position of the County's business-type activities exceeded its liabilities by \$222,768. Of this amount, \$96,727 (unrestricted net position) may be used to meet the County's ongoing obligations. \$126,041 is invested in capital assets, net of related debt.

The County's governmental funds reported combined ending fund balances of \$11,449,103. Of this amount \$971,452 was nonspendable in the form of inventories, \$2,683,840 was restricted for various purposes, \$3,420,205 was committed, \$1,303,643 was assigned for various purposes and \$2,913,389 was available for spending at the government's discretion.

The County's total net position decreased this fiscal year by \$1,732,833. Governmental activities assets decreased by \$1,875,096 and business-type assets decreased by \$57,737.

The County's long term debt consists of the employee compensated absences payable in the amount of \$322,063 for governmental activities and \$8,170 for business type activities and other post-employment benefits liability of \$1,673,673 for governmental activities and \$34,877 for business type activities.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government wide financial statements are designed to provide readers with a broad overview of the County's finances using the accrual basis of accounting, in a manner similar to a private-sector business. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The statement of activities presents information showing how the County's net position changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

continued

Phillips County

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-type Activities.). The Governmental Activities of the County of Chouteau include general government, public safety, public works, public health, social and economic services, culture and recreation, housing/community development and conservation of natural resources.

The government-wide financial statements can be found in this report as referenced in the table of contents.

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. With the implementation of GASB 34 the focus is now on major funds rather than fund types. A major fund should generally meet both of the following criteria: 1) total assets, liabilities, revenues, or expenditures/expenses are at least 10% of the corresponding total (assets, liabilities, etc.) for that fund type (i.e., governmental or enterprise funds) and 2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds.

For major funds, information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

For the current fiscal year, the General Fund, Road Fund, and the Oil & Natural Gas Production Tax Fund are considered to be major funds. Data from other governmental funds is combined into a single, aggregated presentation.

Individual fund data for each of these non-major funds is provided in the form of combining statements located within the supplementary information following the notes to the financial statements.

The County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for all governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in this report as referenced in the table of contents.

PROPRIETARY FUNDS

Proprietary Funds. An enterprise fund is one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statement. The County uses enterprise funds to account for the Phillips County Refuse District Solid Waste Fund.

continued

Phillips County

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

FIDUCIARY RESPONSIBILITIES

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 the County's own programs. All of the County's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position as referenced in the table of contents.

NOTES TO THE FINANCIAL STATEMENTS

To fully understand the data provided in the government-wide and fund financial statements, additional information is provided in the notes to financial statements. The notes to the financial statements can be found in this report as referenced in the table of contents.

OTHER SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules can be found in this report as referenced in the table of contents.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Governmental Accounting Standard Board (GASB) issued new accounting standards in 1999 revised the form of local governmental entities' financial statements. In the County, this financial reporting was implemented in Fiscal Year 2003-2004. Additionally, in Fiscal Year 2010-2011, the County instituted GASB 54 standards into the accounting system.

The governmental financial statements described are intended to provide a broad overview of Blain County's finances. They may be found on the following pages.

The Statement of net position outlines the County's assets and liabilities (Governmental Activities). The increase or decrease, along with other non-financial factors such as change in tax base and legislative action, serve as a useful indicator for whether the County's financial position has improved or deteriorated. Net position may serve over time as a useful indicator of a government's financial position. In the County's case, governmental and business type activities net position exceeded liabilities by \$17,529,073 for a decrease of 9% from the prior year.

A large portion of the County's net position, just under 46%, reflects its investment in capital assets (e.g. land, building, machinery and equipment). The County uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

Approximately 5.5% or \$971,452 of the County's non-spendable net position represents resources that are subject to external restrictions on how they may be used, which includes gravel that is stockpiled for use on county road projects.

The remaining balance of unrestricted and committed net position, \$16,557,621, may be used to meet the government's ongoing obligations.

The County's major capital purchases during fiscal year 2014 included seven road graders for public works and a used military surplus truck for the rural fire department.

LONG TERM DEBT

The County's long term debt includes compensated absences and other post-employment benefits payable.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The County received dollars from various grants during the year and there were no unanticipated significant transactions.

continued

Phillips County

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

CONDENSED STATEMENT OF NET POSITION

	Governmental activities		Business-type activities		Totals	
	2014	2013	2014	2013	2014	2013
ASSETS						
Other assets	\$ 11,449,103	\$ 12,668,951	\$ 139,774	\$ 163,203	\$ 11,588,877	\$ 12,832,154
Capital assets	7,850,205	7,781,941	126,041	151,457	7,976,246	7,933,398
Total assets	19,299,308	20,450,892	265,815	314,660	19,565,123	20,765,552
LIABILITIES						
Other liabilities	(2,733)	246	-	-	(2,733)	246
Noncurrent liabilities	1,995,736	1,648,337	43,047	34,155	2,038,783	1,682,492
Total liabilities	1,993,003	1,648,583	43,047	34,155	2,036,050	1,682,738
NET POSITION						
Inventories	971,452	1,010,334	-	-	971,452	1,010,334
Net investment in capital assets	7,850,205	7,781,941	126,041	151,457	7,976,246	7,933,398
Restricted	4,251,261	3,910,634	-	-	4,251,261	3,910,634
Unrestricted	4,233,387	6,099,400	96,727	129,048	4,330,114	6,228,448
Total net position	<u>\$ 17,306,305</u>	<u>\$ 18,802,309</u>	<u>\$ 222,768</u>	<u>\$ 280,505</u>	<u>\$ 17,529,073</u>	<u>\$ 19,082,814</u>

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 729,341	\$ 758,834	\$ 174,396	\$ 168,730	\$ 903,737	\$ 927,564
Operating grants	535,587	531,956	-	-	535,587	531,956
General revenues:						
Property taxes	1,521,139	1,217,241	-	-	1,521,139	1,217,241
Pynt in lieu of taxes	780,382	485,162	-	-	780,382	485,162
Fed. shared rev	200,405	364,351	-	-	200,405	364,351
State shared rev	932,252	817,277	-	-	932,252	817,277
Miscellaneous	228,430	171,367	312	590	228,742	171,957
Investment earnings	129,558	201,427	-	-	129,558	201,427
Gain on disposals	7,084	1,745,516	-	-	7,084	1,745,516
Total revenues	5,064,178	6,293,131	174,708	169,320	5,238,886	6,462,451
Program expenses:						
General govt	1,639,402	1,682,131	-	-	1,639,402	1,682,131
Public safety	1,555,276	1,408,438	-	-	1,555,276	1,408,438
Public works	2,458,900	2,735,719	-	-	2,458,900	2,735,719
Public health	308,718	278,125	-	-	308,718	278,125

continued

Phillips County

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

Social & economic services	271,005	277,857	-	-	271,005	277,857
Culture & rec	415,291	343,564	-	-	415,291	343,564
Community development	45,000	2,000	-	-	45,000	2,000
Miscellaneous	45,682	45,490	-	-	45,682	45,490
Solid waste/landfill	-	-	232,445	223,280	232,445	223,280
Total expenses	<u>6,739,274</u>	<u>6,773,324</u>	<u>232,445</u>	<u>223,280</u>	<u>6,971,719</u>	<u>6,996,604</u>
Change in net position	(1,675,096)	(480,193)	(57,737)	(53,960)	(1,732,833)	(534,153)
Net position, beginning	18,802,309	20,406,480	280,505	355,048	19,082,814	20,761,528
Prior period adj	179,092	(1,123,978)	-	(20,583)	179,092	(1,144,561)
Net position, ending	<u>\$ 17,306,305</u>	<u>\$ 18,802,309</u>	<u>\$ 222,768</u>	<u>\$ 280,505</u>	<u>\$ 17,529,073</u>	<u>\$ 19,082,814</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The unemployment rate for the County was 5.0% in June 2014. The State's average unemployment rate was 4.6% less than the national average of 6.1%.

The County continues to realize steady revenue from oil and gas royalty payments, oil and gas tax revenue and federal mineral royalties although there has been a define reduction in this revenue.

As the County enters fiscal year 2015, it remains in a solid financial position overall. Fund reserves are generally at the maximum level allowed by law, insuring adequate cash flow throughout the year. The County roads and bridges continue to require constant maintenance and upgrading as does the heavy equipment. The County is committed to maintaining a long-term Capital Improvements Plan, with a primary function of protecting and replacing infrastructure and equipment.

In summary, the County continues to maintain services at a level necessary to serve its citizens without any major increases to their taxpayers.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report provides a general overview of the County's finances for anyone interested in this government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Phillips County Clerk & Recorder's Office
PO Box 360
Malta MT 59538-0360

Or e-mail to: clerkrecorder@phillipscounty.mt.gov

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Phillips County

GOVERNMENT-WIDE STATEMENT OF NET POSITION

as of June 30, 2014

	Governmental Activities	Business Type Activities	Total
ASSETS			
Pooled cash and investments	\$ 10,292,475	\$ 120,048	\$ 10,412,523
Taxes and assessments receivables	159,307	19,726	179,033
Other receivables	25,869	-	25,869
Inventory	971,452	-	971,452
Capital assets, net of accumulated depreciation	7,573,643	119,641	7,693,284
Capital assets, not being depreciated	276,562	6,400	282,962
Total assets	<u>19,299,308</u>	<u>265,815</u>	<u>19,565,123</u>
LIABILITIES			
Accounts payable and other current liabilities	(2,733)	-	(2,733)
Compensated absences	322,063	8,170	330,233
Other post-employment benefits liability	1,673,673	34,877	1,708,550
Total liabilities	<u>1,993,003</u>	<u>43,047</u>	<u>2,036,050</u>
Net Position			
Inventories	971,452	-	971,452
Net investment in capital assets	7,850,205	126,041	7,976,246
Restricted for:			
General government	159,830	-	159,830
Public safety	781,456	-	781,456
Public works	2,359,686	-	2,359,686
Public health	48,995	-	48,995
Social and economic services	30,042	-	30,042
Culture and recreation	150,926	-	150,926
Capital outlay	720,326	-	720,326
Unrestricted	4,233,387	96,727	4,330,114
Total net position	<u>\$ 17,306,305</u>	<u>\$ 222,768</u>	<u>\$ 17,529,073</u>

The accompanying notes are an integral part of these financial statements.

Phillips County

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

for the year ended June 30, 2014

	Program Revenues					Total
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
GOVERNMENTAL ACTIVITIES						
General government	\$ 1,639,402	\$ 117,771	\$ -	\$ (1,521,631)	\$ -	\$ (1,521,631)
Public safety	1,555,276	350,910	265,604	(938,762)	-	(938,762)
Public works	2,458,900	70,169	133,261	(2,255,470)	-	(2,255,470)
Public health	308,718	88,804	57,481	(162,433)	-	(162,433)
Social and economic services	271,005	34,214	75,966	(160,825)	-	(160,825)
Culture and recreation	415,291	67,473	3,275	(344,543)	-	(344,543)
Housing and community development	45,000	-	-	(45,000)	-	(45,000)
Miscellaneous	45,682	-	-	(45,682)	-	(45,682)
Total governmental activities	6,739,274	729,341	535,587	(5,474,346)	-	(5,474,346)
BUSINESS-TYPE ACTIVITIES						
Solid waste / landfill	232,445	174,396	-	-	(58,049)	(58,049)
Total business-type activities	232,445	174,396	-	-	(58,049)	(58,049)
	\$ 6,971,719	\$ 903,737	\$ 535,587	(5,474,346)	(58,049)	(5,532,395)
General revenues:						
Property taxes and assessments, levied for general purposes				1,521,139	-	1,521,139
Payments in lieu of taxes				780,382	-	780,382
Unrestricted federal shared revenue				200,405	-	200,405
Unrestricted state shared revenue				932,252	-	932,252
Miscellaneous revenues				228,430	-	228,430
Unrestricted investment earnings				129,558	312	129,870
Gain (loss) on sale of capital assets				7,084	-	7,084
Total general revenues				3,799,250	312	3,799,562
Change in net position				(1,675,096)	(57,737)	(1,732,833)
Net position, beginning of year				18,802,309	280,505	19,082,814
Prior period adjustment				179,092	-	179,092
Net position, beginning, as restated				18,981,401	280,505	19,261,906
Net position, end of year				\$ 17,306,305	\$ 222,768	\$ 17,529,073

The accompanying notes are an integral part of these financial statements.

Phillips County

GOVERNMENTAL FUNDS BALANCE SHEET

as of June 30, 2014

	General Fund	Road Fund	Public Safety Fund	State Allocated Federal Mineral Fund	Oil & Natural Gas Production Taxes Fund	P.I.L.T. Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Pooled cash and investments	\$ 869,246	\$ 1,481,349	\$ 431,331	\$ 1,818,919	\$ 1,601,286	\$ 2,044,143	\$ 2,046,201	\$ 10,292,475
Taxes and assessments receivable	40,188	37,870	39,473	-	-	-	41,776	159,307
Other receivables	-	-	-	-	-	-	25,869	25,869
Inventories	-	66,435	-	686,435	-	-	218,582	971,452
Total assets	<u>\$ 909,434</u>	<u>\$ 1,585,654</u>	<u>\$ 470,804</u>	<u>\$ 2,505,354</u>	<u>\$ 1,601,286</u>	<u>\$ 2,044,143</u>	<u>\$ 2,332,428</u>	<u>\$ 11,449,103</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts payable and current liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,733)	\$ (2,733)
Total liabilities	-	-	-	-	-	-	(2,733)	(2,733)
Deferred inflows of resources:								
Unavailable tax revenues	40,188	37,870	39,473	-	-	-	41,776	159,307
Total deferred inflows of resources	40,188	37,870	39,473	-	-	-	41,776	159,307
Fund balances:								
Nonspendable:								
Inventories	-	66,435	-	686,435	-	-	218,582	971,452
Restricted for:								
General government	-	-	-	-	-	-	10,244	10,244
Public safety	-	-	431,331	-	-	-	553,069	984,400
Public works	-	1,481,349	-	-	-	-	130,267	1,611,616
Public health	-	-	-	-	-	-	77,580	77,580
Committed for:								
Public works	-	-	-	1,818,919	1,601,286	-	-	3,420,205
Assigned for:								
General government	-	-	-	-	-	-	152,427	152,427
Public safety	-	-	-	-	-	-	117,220	117,220
Public works	-	-	-	-	-	-	532,199	532,199
Public health	-	-	-	-	-	-	20,324	20,324
Culture and recreation	-	-	-	-	-	-	125,427	125,427
Capital outlay	-	-	-	-	-	-	356,046	356,046
Unassigned	869,246	-	-	-	-	2,044,143	-	2,913,389
Total fund balances	<u>869,246</u>	<u>1,547,784</u>	<u>431,331</u>	<u>2,505,354</u>	<u>1,601,286</u>	<u>2,044,143</u>	<u>2,293,385</u>	<u>11,292,529</u>
Total liabilities and fund balances	<u>\$ 909,434</u>	<u>\$ 1,585,654</u>	<u>\$ 470,804</u>	<u>\$ 2,505,354</u>	<u>\$ 1,601,286</u>	<u>\$ 2,044,143</u>	<u>\$ 2,332,428</u>	<u>\$ 11,449,103</u>

The accompanying notes are an integral part of these financial statements.

continued

Phillips County

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION**
as of June 30, 2014

Total fund balance, governmental funds	\$ 11,292,529
Amounts reported for governmental activities in the statement of net position differ because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements. The total cost of capital assets not reported above, net of accumulated depreciation.	7,850,205
Property taxes receivable were assessed this year, but are not available to meet current obligations, and therefore are unavailable in the funds.	159,307
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Other post employment benefits	(1,673,673)
Compensated absences	<u>(322,063)</u>
Net position of governmental activities in the statement of net position	<u>\$ 17,306,305</u>

The accompanying notes are an integral part of these financial statements.

Phillips County

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
for the year ended June 30, 2014

	General Fund	Road Fund	Public Safety Fund	State Allocated Federal Mineral Fund	Oil & Natural Gas Production Taxes Fund	P.I.L.L.T. Fund	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes and assessments	\$ 400,496	\$ 364,857	\$ 339,509	\$ -	\$ -	\$ -	\$ 389,391	\$ 1,494,253
Licenses and permits	320	-	2,545	-	-	-	275	3,140
Intergovernmental revenues	418,494	588,563	304,835	200,405	-	495,265	560,418	2,567,980
Charges for services	165,824	-	242,010	-	-	-	288,755	696,589
Fines and forfeitures	27,710	-	-	-	-	-	1,902	29,612
Miscellaneous revenues	23,759	12,577	12,308	-	-	-	60,432	109,076
Investment and royalty earnings	76,192	5,601	-	15,273	15,286	9,967	7,239	129,558
Total revenues	<u>1,112,795</u>	<u>971,598</u>	<u>901,207</u>	<u>215,678</u>	<u>15,286</u>	<u>505,232</u>	<u>1,308,412</u>	<u>5,030,208</u>
EXPENDITURES								
General government	1,303,303	-	-	-	-	18,974	122,282	1,444,559
Public safety	42,287	-	1,011,994	-	-	-	196,736	1,251,017
Public works	-	1,081,802	-	93,519	-	-	557,494	1,732,815
Public health	225,733	-	-	-	-	-	64,286	290,019
Social and economic services	88,464	-	-	-	-	-	170,366	258,830
Culture and recreation	102,678	-	-	-	-	-	219,935	322,613
Housing & community development	-	-	-	-	45,000	-	-	45,000
Miscellaneous	45,682	-	-	-	-	-	-	45,682
Capital outlay	9,863	88,710	76,146	559,894	3,951	-	113,066	851,630
Total expenditures	<u>1,818,010</u>	<u>1,170,512</u>	<u>1,088,140</u>	<u>653,413</u>	<u>48,951</u>	<u>18,974</u>	<u>1,444,165</u>	<u>6,242,165</u>
Excess (deficiency) of revenues over expenditures	(705,215)	(198,914)	(186,933)	(437,735)	(33,665)	486,258	(135,753)	(1,211,957)
OTHER FINANCING SOURCES (USES)								
Proceeds from disposal of capital assets	-	-	7,084	-	-	-	-	7,084
Interfund operating transfers in (out)	856,687	154,109	335,095	(250,000)	(653,002)	(630,000)	187,111	-
Total other financing sources and uses	<u>856,687</u>	<u>154,109</u>	<u>342,179</u>	<u>(250,000)</u>	<u>(653,002)</u>	<u>(630,000)</u>	<u>187,111</u>	<u>7,084</u>
Net change in fund balances	151,472	(44,805)	155,246	(687,735)	(686,667)	(143,742)	51,358	(1,204,873)
Fund balances, beginning of year	717,774	1,853,999	276,085	2,940,736	2,287,953	2,187,885	2,271,852	12,536,284
Change in Inventory	-	(261,410)	-	252,353	-	-	(29,825)	(38,882)
Fund balances, beginning, as restated	<u>717,774</u>	<u>1,592,589</u>	<u>276,085</u>	<u>3,193,089</u>	<u>2,287,953</u>	<u>2,187,885</u>	<u>2,242,027</u>	<u>12,497,402</u>
Fund balances, end of year	<u>\$ 869,246</u>	<u>\$ 1,547,784</u>	<u>\$ 431,331</u>	<u>\$ 2,505,354</u>	<u>\$ 1,601,286</u>	<u>\$ 2,044,143</u>	<u>\$ 2,293,385</u>	<u>\$ 11,292,529</u>

The accompanying notes are an integral part of these financial statements.

Phillips County

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-
WIDE STATEMENT OF ACTIVITIES**

for the year ended June 30, 2014

Net change in fund balance, total governmental funds:	\$ (1,204,873)
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Amounts reported for governmental activities in the statement of activities differ because:

Inventory is reported in governmental funds as expenditures at the time of purchase. However, for governmental activities these purchases are reported in the statement of net position until the inventory is consumed. (38,882)

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$851,630 were less than depreciation of \$962,458 in the current period. (110,828)

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$851,630 were less than depreciation of \$962,458 in the current period.

Capital outlays
Depreciation expense

In the statement of activities, certain operating expenses including compensated absences (vacations and sick leave) and other post employment benefits (retiree health insurance) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used

Compensated absences	(18,510)
OPEB Liability	<u>(328,889)</u>

Change in net position of governmental activities	<u><u>\$ (1,675,096)</u></u>
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The accompanying notes are an integral part of these financial statements.

Phillips County

PROPRIETARY FUNDS STATEMENT OF NET POSITION
for the year ended June 30, 2014

	<u>Other Enterprise Funds</u>
ASSETS	
Cash and investments	\$ 120,048
Taxes and assessments receivable	19,726
Capital assets, net of accumulated depreciation	<u>126,041</u>
Total assets	<u>265,815</u>
LIABILITIES	
Compensated absences	8,170
Other post-employment benefits liability	<u>34,877</u>
Total liabilities	<u>43,047</u>
NET POSITION	
Net investment in capital assets	126,041
Unrestricted	<u>96,727</u>
Total net position	<u><u>\$ 222,768</u></u>

The accompanying notes are an integral part of these financial statements.

Phillips County

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION
for the year ended June 30, 2014

	<u>Other Enterprise Funds</u>
OPERATING REVENUES	
Special assessments	\$ 174,396
Total operating revenues	<u>174,396</u>
OPERATING EXPENSES	
Personal services	91,408
Supplies	26,794
Purchased services	79,953
Fixed charges	8,874
Depreciation	25,416
Total operating expenses	<u>232,445</u>
Operating loss	(58,049)
NON-OPERATING REVENUES	
Interest income	312
Total non-operating revenues	<u>312</u>
Net loss	(57,737)
Net position, beginning of year	280,505
Prior period adjustment	-
Net position, beginning, as restated	<u>280,505</u>
Net position, end of year	<u>\$ 222,768</u>

The accompanying notes are an integral part of these financial statements.

Phillips County

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
for the year ended June 30, 2014

	<u>Other Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 184,595
Cash paid to suppliers	(115,621)
Cash paid to employees	(82,516)
Net cash from operating activities	<u>(13,542)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	312
Net cash from investing activities	<u>312</u>
Change in cash and cash equivalents	(13,230)
Cash and cash equivalents, beginning of year	<u>133,278</u>
Cash and cash equivalents, end of year	<u>\$ 120,048</u>

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (58,049)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	25,416
(Increase) decrease in accounts receivable	10,199
Increase (decrease) in compensated absences payable	1,459
Increase (decrease) in other post-employment benefits liability	7,433
Total adjustments	<u>44,507</u>
Net cash from operating activities	<u>\$ (13,542)</u>

The accompanying notes are an integral part of these financial statements.

Phillips County

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

as of and for the year ended June 30, 2014

STATEMENT OF FIDUCIARY NET POSITION

	Agency Funds	Investment Trust Fund
ASSETS		
Pooled cash and investments	\$ 10,360,963	\$ 2,619,598
Taxes receivable, net	646,553	-
Total assets	11,007,516	2,619,598
LIABILITIES		
Warrants payable	3,629,446	-
Due to other governments	7,023,192	-
Unavailable tax revenues	354,878	-
Total liabilities	11,007,516	-
Net position held in trust for pool participants	\$ -	\$ 2,619,598

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	Investment Trust Fund
ADDITIONS	
Contributions to pooled investments	\$ 6,826,179
Investment earnings	11,715
Total additions	6,837,894
DEDUCTIONS	
Distributions from pooled investments	7,891,565
Total deductions	7,891,565
Change in net position held in trust	(1,053,671)
Net position held in trust for pool participants, beginning of year	3,673,269
Net position held in trust for pool participants, end of year	\$ 2,619,598

The accompanying notes are an integral part of these financial statements.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Phillips County (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to counties and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting policies are described below:

1. Reporting entity. The county is a political subdivision of the state of Montana governed by a three member board of commissioners duly elected by the registered voters of the county.

Phillips 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 remitted monthly to those entities by the County Treasurer. The County has not recorded any service charges for the services it provides other governmental entities.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds for which the County is financially accountable. The County has also considered all other potential organizations for which the nature and significance of their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. The criteria include appointing a majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the County. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

School districts and other independent taxing units are reflected only in the statement of fiduciary net position and statement of changes in fiduciary net position as investment trust funds agency funds, since the County is responsible, by law, for the collection of taxes and/or the maintenance of cash funds for these entities.

2. Government-wide financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the County. For the most part, the effect of material inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program or function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

3. Fund financial statements. The County uses funds to report on its financial position and results of its operations. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Cod. Sec. 2200.159 *Focus on Major Funds*, sets forth criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the determination of major funds.

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. Funds are classified into two categories: governmental and fiduciary. Each category is then divided into separate fund types as follows:

Governmental Funds: Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is on the sources, uses and balance of current financial resources. Governmental fund types are those funds through which most governmental functions typically are financed and consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

The following comprise the County's major governmental funds:

The General Fund is the general operating fund of the County. This fund accounts for all financial transactions not properly accounted for in another fund. The general fund is created and maintained to finance the general, overall functions of the governmental unit.

Road Fund is a special revenue fund used to account for costs related to road and street construction, reconstruction, improvements, additions and maintenance of County roads funded by specific tax levy dollars and various outside earned revenues.

Bridge Fund is a special revenue fund used to account for costs related to bridge construction, reconstruction, improvements, additions and maintenance of County bridges. The Bridge Fund is funded by specific tax levy dollars and various outside earned revenues.

Parks/Recreation/Civic Center Fund is a special revenue fund used to account for the revenues and expenditures related to the park pavilion complex, its maintenance, repair and reconstruction.

Public Safety Fund is a special revenue fund to record all expenditures incurred to provide law enforcement to the County.

Federal Mineral Royalty Fund is a special revenue fund that accounts for funds collected by the State and distributed to the eligible counties based on the proportion of mineral extraction in the county.

Oil and Natural Gas Fund is a special revenue fund that accounts for the deposit of oil and natural gas tax distributions under MCA 15-36-325.

Payment in Lieu of Taxes Fund is a special revenue fund used for collection of money from the federal government based on tax base lost because of federally owned land within the County.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Enterprise Funds: Enterprise funds are used to account for self-supporting activities of the governmental unit rendering services to the public, and financed primarily from user charges. For enterprise fund accounting the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the County an option of electing to apply FASB pronouncements issued after November 30, 1989. The County has elected not to apply those pronouncements.

The following comprise the County's enterprise fund:

Solid Waste Fund – An enterprise fund used to account for the revenues and expenditures related to the solid waste disposal and landfill operations.

Fiduciary Funds: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for others and are therefore not available to support programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to businesses in the private sector. Fiduciary funds consist of private-purpose trust funds, pension trust funds, investment trust funds and agency funds. Investment trust funds are utilized to account for investments held by the entity for other agencies in individual investment accounts or as the external portion of a pool. At June 30, 2014 all Investment Trust Funds were held in an investment pool. Agency funds are primarily clearing devices for cash collected for other governments or agencies and is distributed within a short period of time.

5. Measurement focus and basis of accounting. The financial statements of the County are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) standards as published in the Codification of Governmental Accounting and Financial Reporting Standards (GASB Cod.).

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, while grants and similar items are recognized as revenue upon grantor eligibility requirements being met. Generally, the effect of material inter-fund activity has been removed.

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 County 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.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The County recognizes property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue and charges for services. 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.

The County reports advances from grantors as liabilities on its government-wide statement of net position and on its governmental funds balance sheet. The County also reports deferred inflows of resources resulting from unavailable tax revenues on its governmental funds balance sheet. These amounts arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period or when resources are received by the County before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the related liability or deferred inflows of resources, as appropriate, is removed from the balance sheet and revenue is recognized.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

6. Cash and pooled investments. Except where otherwise required, the County maintains all deposits in bank and investment accounts in the name of the County. These deposits are invested on a short term basis with interest income being recorded in the General Fund, except for interest income allocated to enterprise funds and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the County Treasurer. The provisions of GASB Cod. Section I50.105, *Accounting and Financial Reporting for Investments*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Cod. Section I50.105, the County has stated investments at cost, which approximates the fair value.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the State of Montana Short-Term Investment Pool (STIP); direct obligations of the United States Government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

7. Property taxes receivable. Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified. The current taxes receivable represents the levy based on the assessed valuations as of January 1 for all real property located in the County. Taxes are normally billed in October and payable in two installments on November 30 and May 31.

Delinquent real property taxes attach as a lien on the property as of January 1. Personal property taxes are assessed and billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based upon levies set during August of the prior year. These taxes become delinquent thirty days after billing. Delinquent personal property taxes may become a lien on the property of the owner of the personal property. Property taxes receivable at June 30, 2014 consist primarily of delinquent property taxes from prior years' levies and are offset by deferred revenue in the fund financial statements. The County does not record an allowance for uncollectible taxes because it is considered to be immaterial.

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

8. Inventories. The County records its inventories of expendable supplies using the purchases basis, which indicates that materials and supplies are charged as expenditures when acquired. A physical inventory is performed at the end of each fiscal year to determine the amount of materials and supplies to be reported. The inventories are offset by a fund balance reserve. This indicates that it does not represent "available spendable resources" even though it is a component of fund balance. The value of the inventories is based on the first-in first-out (FIFO) method.
9. Capital assets. Capital assets, including land, buildings, improvements, and equipment assets, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. If no historical records exist, capital assets are recorded at estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The County has chosen to only record infrastructure assets on a prospective basis beginning July 1, 2003. Minimum cost for capitalization and estimated useful lives have not been established for infrastructure assets and depreciation expense has not been recorded for the current year additions, which is immaterial to the basic financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Assets:</u>	<u>Years</u>
Buildings	50-100
Equipment	5-25
Vehicles	5-10

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

10. Deferred inflows of resources. In addition to liabilities, the governmental funds balance sheet may report a separate section for deferred inflows of resources. This is a separate financial statement element representing an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. Unavailable tax revenue is the only item the County has of this type. Accordingly, unavailable tax revenue, which only arises under the modified accrual basis of accounting, is reported as deferred inflows of resources on the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period the amounts become available.
11. Interfund transactions. Transactions among County funds that would be treated as revenues and expenditures or expenses if they involved organizations external to County government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund. Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective fund's operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

12. Warrants payable. The County pays its claims by issuing a warrant ordering the County Treasurer to pay for the warrant presentation.
13. Compensated absences. County employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Upon death or retirement, the total accumulated hours for vacation leave and 25% of the total accumulated hours for sick leave, is paid at the then effective hourly rate for that employee. For governmental fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.
14. Long-term obligations. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. The entire portion of such obligations is reported in the government-wide financial statements
15. Fund balances. The GASB Cod. 1800.165-179 *Fund Balance Reporting* defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

In the governmental fund financial statements, fund balances are reported in five classifications:

Nonspendable: Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted: Amounts that can only be spent for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Committed: Amounts that can be used only for the specific purposes determined by a resolution (formal action) of the Board of County Commissioners (the County's highest level of decision making authority) and does not lapse at year end.

Assigned: Amounts intended to be used by the government for specific purposes, under the direction of the County Clerk and Recorder by authority granted by the Board of County Commissioners, but do not meet the criteria to classified as restricted or committed.

Unassigned: The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the County's policy, for purposes of fund balance classification, when restricted, committed, assigned or unassigned funds are available, expenditures will first be made from restricted, then from committed, then from assigned and lastly from unassigned fund balances.

Net position. Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets, represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use of assets either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability, if the liability will be liquidated with the restricted assets reported. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

16. Risk management. The County is exposed to a considerable number of risks of loss, including: (1) damage to and loss of property and contents, (2) employee torts, (3) professional liability (e.g. errors and omissions), (4) environmental damage, (5) worker's compensation (e.g. employee injuries) and (6) medical insurance costs of employees. Commercial policies transferring the risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts and professional liabilities. Given the lack of coverage available, the County has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for the property and content coverage where the guaranteed values have been increased to approximate replacement costs of the assets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The County has joined with other Montana counties in the Montana Association of Counties' (MACO) Insurance Pool, which provides worker's compensation coverage. The pool is limited to \$250,000 per incident or occurrence. The pool has purchased insurance coverage and an aggregate bond to cover claims in excess of \$250,000 per incident or occurrence. Audited financial statements for the MACO pool are available upon request.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

17. Management estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires the County to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenues and expenditures during the reporting period. Significant estimates include the actuarial assumptions made in determining the other post-employment liability recorded under GASB Cod. P50.101-134. Actual results could vary from the estimates that were used.

NOTE B CASH AND INVESTMENTS

The provisions of GASB Cod. Section I50.105, *Accounting and Financial Reporting for Investments*, require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Cod. Section I50.105, the County has stated investments at cost, which approximates the fair value.

Cash and investments may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the State Short-Term Investment Pool (STIP); direct obligations of the United States Government and securities issued by agencies of the United States; repurchase agreements; and registered warrants.

All of the investments held in the Investment Trust Fund are held for external participants. Investment accounts held at June 30, 2014 include demand and time deposits, which are reported at cost, which approximates the fair value. Interest income earned on these investments is credited directly to the specific external participants that made the investment.

The composition of cash and investments on June 30, 2014, was as follows:

	Rating	Maturity	Coupon	Fair Value
Cash on hand				\$ 3,980
Cash in banks:				
Demand deposits		< 1 year	0.15% to 0.40%	7,932,804
Time and savings deposits		< 1 year	0.20% to 2.55%	14,192,254
Investments:				
State short-term investment pool (STIP)				768,046
Government agencies	AAA	2.5-3 yrs	1.25% to 1.35%	496,000
Total				\$ 23,393,084
Reconciliation				
Government-wide statement of net position, governmental activities				\$ 10,292,475
Government-wide statement of net position, business-type activities				120,048
Fiduciary funds statement of net position, investment trust funds				2,619,598
Fiduciary funds statement of net position, agency funds				10,360,963
Total				\$ 23,393,084

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B CASH AND INVESTMENTS, continued

Interest rate risk. The County 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.

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. Per Montana law 7-6-207, the local governing body may require security only for that portion of the deposits that is not guaranteed or insured according to law and, as to the unguaranteed or uninsured portion, to the extent of 50% of the deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more. As of June 30, 2014 the government's balances were not exposed to custodial credit risk.

NOTE C PROPERTY TAXES

The County's real property tax is levied on the assessed value listed as of January 1 for all real property located within the County. Assessed values are established by the Montana Department of Revenue based on market value base. A reevaluation of all property is required to be completed on a periodic basis. Taxable value is defined by a State statute as a fixed percentage of assessed value. The County is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The tax levies for the year ended June 30, 2014 were within the legal limits.

The tax levies for the fiscal year ending June 30, 2014 were based on the taxable values of \$17,528,026 as of January 1, 2014. All property taxes are recognized in compliance with GASB Cod. P70 *Property Taxes* which states that such revenue is recorded when it becomes measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

NOTE D CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2014
Governmental activities:					
Land	\$ 145,258	\$ -	\$ -	\$ -	\$ 145,258
Construction in Progress	-	131,304	-	-	131,304
Total capital assets not depreciated	145,258	131,304	-	-	276,562
Other capital assets:					
Buildings	4,603,613	13,813	-	179,092	4,796,518
Improvements other than buildings	266,108	-	-	-	266,108
Machinery & equipment	8,802,530	706,513	553,890	\$ -	8,955,153
Infrastructure	665,422	-	-	-	665,422
Totals at historical cost	14,337,673	720,326	553,890	179,092	14,683,201
Less accumulated depreciation	(6,700,990)	(962,458)	(553,890)	-	(7,109,558)
Total other capital assets, net	7,636,683	(242,132)	-	179,092	7,573,643
Total governmental capital assets, net	\$ 7,781,941	\$ (110,828)	\$ -	\$ 179,092	\$ 7,850,205

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE D CAPITAL ASSETS, continued

Business-type activities:

Land	\$ 6,400	\$ -	\$ -	\$ 6,400
Total capital assets not depreciated	6,400	-	-	6,400
Other capital assets:				
Improvements other than buildings	201,408	-	-	201,408
Machinery and equipment	515,262	-	-	515,262
Totals at historical cost	716,670	-	-	716,670
Less accumulated depreciation	(571,613)	(25,416)	-	(597,029)
Total other capital assets, net	145,057	(25,416)	-	119,641
Total business-type capital assets, net	<u>\$ 151,457</u>	<u>\$ (25,416)</u>	<u>\$ -</u>	<u>\$ 126,041</u>

Depreciation expense was allocated to functions as follows:

General government	\$ 81,262
Public safety	211,712
Public works	591,921
Public health	1,571
Culture and recreation	75,992
	<u>\$ 962,458</u>

NOTE E NON-CURRENT LIABILITIES

Non-current liability balances and activity for the year ended June 30, 2014 were as follows:

	Balance <u>June 30, 2013</u>	Additions	Reductions	Balance <u>June 30, 2014</u>
Governmental activities:				
Other post employment benefits	\$ 1,344,783	\$ 328,890	\$ -	\$ 1,673,673
Compensated absences payable	303,553	18,510	-	322,063
Total	<u>\$ 1,648,336</u>	<u>\$ 347,400</u>	<u>\$ -</u>	<u>\$ 1,995,736</u>
Business-type activities:				
Other post employment benefits	\$ 27,445	\$ 7,432	\$ -	\$ 34,877
Compensated absences payable	6,711	1,459	-	8,170
Total	<u>\$ 34,156</u>	<u>\$ 8,891</u>	<u>\$ -</u>	<u>\$ 43,047</u>

The current portion of compensated absences has not been separately stated due to the indeterminate nature of the liability. Employees are allowed to accrue compensated absences indefinitely, subject to certain dollar limits, and use it at their discretion.

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F ANALYSIS OF INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 were made up of the following amounts:

	Transfers out:				Total
	State Allocated Federal Mineral Fund	Oil & Natural Gas Fund	P.I.L.T. Fund	Other Governmental Funds	
Transfers in:					
General Fund	\$ 150,000	\$ 301,687	\$ 405,000	\$ -	\$ 856,687
Road	\$ -	\$ 154,109	\$ -	\$ -	154,109
Public Safety Fund	100,000	75,095	160,000	-	335,095
Other Governmental Funds	-	122,111	65,000	35,000	222,111
	<u>\$ 250,000</u>	<u>\$ 653,002</u>	<u>\$ 630,000</u>	<u>\$ 35,000</u>	<u>\$ 1,568,002</u>

The County's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the General Fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

NOTE G RETIREMENT AND PENSION PLANS

The County participated in two multi-employer cost-sharing retirement plans which cover all employees, except part-time employees. The Sheriff's Retirement System (SRS) covers the Sheriff and Deputy Sheriffs and the Public Employee's Retirement System (PERS) covers all other employees who qualify to be covered. The plans are established by State law and are administered by the Department of Administration of the State of Montana.

Sheriff's Retirement System (SRS):

SRS is a statewide retirement plan established by the State of Montana in 1974 and governed by Title 19, Chapter 7 of the Montana Code Annotated providing retirement services to all persons in Montana employed in the sheriff's department. SRS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employee's Retirement Division (PERD).

The SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for a normal retirement benefit. The service retirement benefit is calculated as follows: 2.5% of the member's highest average compensation (HAC) for each year of service credit. The HAC is the average of a set number of highest consecutive months of salary, which is 36 months for members hired before July 1, 2011 and 60 months for members hired on or after July 1, 2011. After five years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the state legislature.

Funding is provided by participating governmental units and their employees. The County's required contribution to this plan for the year ended June 30, 2014 was \$37,565 (10.115% of payroll). The County's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$34,334 (9.245% of payroll). Total payroll for sheriff and deputies was \$371,381. One hundred percent of the required contributions for the employer and employees were made for the current year and the preceding two years. Contributions were \$71,899, \$65,531, and \$63,178 for the fiscal years ending June 30, 2014, 2013 and 2012, respectively.

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G RETIREMENT AND PENSION PLANS, continued

The SRS financial information is reported in the Public Employee's Retirement Board's Comprehensive Annual Financial Report for the Fiscal year-end. It is available from PERD at 100 North Park Avenue, Suite 100, PO Box 200131, Helena, MT 59620-0139, (406) 444-3154.

Public Employee's Retirement System (PERS):

PERS is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employee's Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Annual retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Member's rights become vested after 5 years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding is provided by participating governmental units and their employees. The County's required contribution to this plan for the year ended June 30, 2014 was \$134,172 (8.07% of payroll). The County's contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$131,176 (7.90% of payroll). Total payroll for employees covered by PERS was \$1,662,519. One hundred percent of required contributions for both the employer and employees were made for the current and preceding two years. Contributions were \$265,348, \$231,964, and \$230,830 for fiscal years ending June 30, 2014, 2013 and 2012, respectively. The State of Montana contributes .10% of the employee's compensation. The state's "on-behalf" contribution was \$1,663 and was not recognized in the County's financial statements.

The PERS financial information is reported in the Public Employee's Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 North Park Avenue, Suite 100, PO Box 200139 Helena, MT 59620-0139, (406) 444-3154.

NOTE H INTERLOCAL AGREEMENTS

The following agreements are described as interlocal agreements between the governmental entities involved. These agreements do not qualify as 'Joint Ventures,' which require that the participants have an ongoing financial interest or ongoing financial responsibility, and that the participants have joint control. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

Refuse Disposal District. The County formed a County-wide Refuse Disposal District on August 28, 1989, to account for the operation and maintenance relating to the removal and disposal of solid waste in the County. The District includes the incorporated cities/towns of Malta, Saco and Dodson. The District is administered by a five-member board appointed by the County Commissioners. The board is required to consist of one member of each of the aforementioned cities/towns, one member of the County Board of Health, and one County Commissioner.

Service fees are based on a typical family residential unit and commercial service fees are based on a comparison to a family residential unit and consideration for volume and types of waste produced. The service fees are included on, and collected with, property taxes. Failure to pay the required fee results in a lien being placed on the owner's property. All solid waste is transported and disposed of at the Valley County Landfill. The District is accounted for as an enterprise fund within the County's financial statements.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H INTERLOCAL AGREEMENTS, continued

Law Enforcement Services. The County Sheriff's Department provides law enforcement services to the City of Malta. An agreement between the city the county was made on July 11, 1989 to combine the law enforcement services within the respective areas. The agreement is administered by a seven person advisory board consisting of three members appointed by the county commissioners, three members appointed by the city council and a representative appointed by the sheriff. The County provides all personnel, equipment, facilities and supplies necessary. The agreement is renewed on an annual basis and may be terminated by either party.

NOTE I CONTINGENT LIABILITIES

The County is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the County.

NOTE J POST-EMPLOYMENT HEALTHCARE PLAN

The County provides continuation of medical coverage to its retiring employees, as required under Montana State Law (MCA 2-18-704). A retiree who retires with the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) or Sheriff's Retirement System (SRS) is eligible to keep the County's health insurance as a retiree until age 65 or until the retiree is eligible for coverage under Medicare. Retirement eligibility is determined based on a minimum of reaching age 50 with at least 5 years of membership with a TRS, PERS, or SRS employer. The retirees, along with surviving spouses and dependents, are on the same medical plan as the County's active employees as long as they pay the same premium. Other postemployment benefits arises from the difference in the County's medical insurance cost the retirees are incurring and what they would otherwise be paying on the open market for a similar plan. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the County has calculated and reported a postemployment benefit liability.

Plan description. The County's plan is a single-employer defined benefit healthcare plan administered by Montana Association of Counties Health Care Trust (MACoHCT).

Funding policy. The contribution requirement of plan members is established by the County's insurance committee in conjunction with the insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. A trust fund for future liabilities has not been established.

Annual OPEB cost and net OPEB obligation. The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the County's Post-Retirement Healthcare Plan:

continued

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE J POST-EMPLOYMENT HEALTHCARE PLAN, continued

	Governmental Activities	Business-type Activities
Annual required contribution	\$ 336,046	\$ 7,594
Interest on net OPEB obligation	37,573	849
Adjusted to annual required contribution	(44,729)	(1,011)
Annual OPEB cost (expense)	328,890	7,432
Contributions made	-	-
Increase in net OPEB obligation	328,890	7,432
Net OPEB obligation, beginning of year	1,344,783	27,445
Net OPEB obligation, end of year	\$ 1,673,673	\$ 34,877

The three year disclosure of the County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is shown in the following table:

Fiscal Year Ended	Annual OPEB Cost (AOE)	Estimated Contribution as a Percentage of AOE*	Net OPEB Obligation at End of Year**
June 30, 2012	N/A	N/A	N/A
June 30, 2013	343,057	0.0%	1,372,228
June 30, 2014	\$ 343,057	0.0%	\$ 1,673,673

* Equals estimated actual incurred claims plus administration less retiree contributions as a percentage of AOE.

** Equals prior year Net OPEB obligation plus current year AOE less estimated current year contributions.

Funded status and funding progress. As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$2,544,078. The County's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$1,888,712 and the ratio of the UAAL to the covered payroll was 135%.

The projection of future benefit payments for an ongoing plan involves 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, present 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.

Phillips County

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE J POST-EMPLOYMENT HEALTHCARE PLAN, continued

Methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the Projected Unit Credit (PUC) actuarial cost method is used. The actuarial assumptions included a 0.17% discount rate assuming the County will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 100% of future retirees will elect medical coverage. The annual healthcare cost trend rate of 3.80% for medical, increasing approximately .3% per year until reaching an ultimate rate of 6.90%. It was assumed salary increases will be 2.8% annum. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

NOTE K PRIOR PERIOD ADJUSTMENT

In 2014 net position was corrected to show an addition to capital assets that was placed in service in 2013 but not included in the capital assets for the year ended June 30, 2013. The correction increased capital assets and net position invested in capital assets by \$179,092.

NOTE L SUBSEQUENT EVENTS

The county has evaluated subsequent events through June 17, 2015, which is the date of these financial statements were available to be issued. There were no subsequent events requiring recognition as of June 30, 2014.

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REQUIRED SUPPLEMENTAL INFORMATION

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

GENERAL FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Taxes and assessments	\$ 401,500	\$ 400,496	\$ (1,004)
Licenses and permits	400	320	(80)
Intergovernmental revenues	455,334	418,494	(36,840)
Charges for services	142,200	165,824	23,624
Fines and forfeitures	25,000	27,710	2,710
Miscellaneous revenues	15,000	23,759	8,759
Investment and royalty earnings	95,000	76,192	(18,808)
Total revenues	1,134,434	1,112,795	(21,639)
EXPENDITURES			
General government	1,509,100	1,303,303	205,797
Public safety	67,600	42,287	25,313
Public health	244,350	225,733	18,617
Social and economic services	107,900	88,464	19,436
Culture and recreation	112,780	102,678	10,102
Miscellaneous	50,000	45,682	4,318
Capital outlay	10,000	9,863	137
Total expenditures	2,101,730	1,818,010	283,720
Excess (deficiency) of revenues over expenditures	(967,296)	(705,215)	(262,081)
OTHER FINANCING SOURCES (USES)			
Interfund operating transfers in	400,000	856,687	456,687
Total other financing sources and uses	400,000	856,687	456,687
Net change in fund balances	\$ (567,296)	151,472	\$ 194,606
Fund balance, beginning of year		717,774	
Fund balances, end of year		\$ 869,246	

The accompanying notes are an integral part of these schedules.

continued

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

ROAD FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Taxes and assessments	\$ 300	\$ 364,857	\$ 364,557
Intergovernmental revenues	647,079	588,563	(58,516)
Charges for services	500	-	(500)
Miscellaneous revenues	7,700	12,577	4,877
Investment and royalty earnings	5,000	5,601	601
Total revenues	660,579	971,598	311,019
EXPENDITURES			
Public works	1,469,500	1,081,802	387,698
Capital outlay	390,000	88,710	301,290
Total expenditures	1,859,500	1,170,512	688,988
Excess (deficiency) of revenues over expenditures	(1,198,921)	(98,914)	1,000,007
OTHER FINANCING SOURCES (USES)			
Interfund operating transfers in	-	154,109	154,109
Total other financing sources and uses	-	154,109	154,109
Net change in fund balances	\$ (1,198,921)	(44,805)	\$ 1,154,116
Fund balance, beginning of year		1,853,999	
Change in Inventory		(261,410)	
Fund balances - beginning as adjusted		1,592,589	
Fund balances, end of year		\$ 1,547,784	

The accompanying notes are an integral part of these schedules.

continued

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

PUBLIC SAFETY FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Taxes and assessments	\$ -	\$ 339,509	\$ 339,509
Licenses and permits	1,500	2,545	1,045
Intergovernmental revenues	721,500	304,835	(416,665)
Charges for services	242,064	242,010	(54)
Fines and forfeitures	-	-	-
Miscellaneous revenues	20,000	12,308	(7,692)
Total revenues	985,064	901,207	(83,857)
EXPENDITURES			
Public safety	1,410,435	1,011,994	(398,441)
Capital outlay	200,000	76,146	(123,854)
Total expenditures	1,610,435	1,088,140	(522,295)
Excess (deficiency) of revenues over expenditures	(625,371)	(186,933)	438,438
OTHER FINANCING USES			
Proceeds from disposal of capital assets	-	7,084	7,084
Interfund operating transfers in	300,000	335,095	35,095
Total other financing uses	300,000	342,179	42,179
Net change in fund balances	\$ (325,371)	155,246	\$ 480,617
Fund balance, beginning of year		276,085	
Fund balances, end of year		\$ 431,331	

The accompanying notes are an integral part of these schedules.

continued

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

STATE ALLOCATED FEDERAL MINERAL ROYALTY FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Intergovernmental revenues	\$ 193,767	\$ 200,405	\$ 6,638
Investment and royalty earnings	10,000	15,273	5,273
Total revenues	203,767	215,678	11,911
EXPENDITURES			
Public works	1,726,421	93,519	1,632,902
Capital outlay	500,000	559,894	(59,894)
Total expenditures	2,226,421	653,413	1,573,008
Excess (deficiency) of revenues over expenditures	(2,022,654)	(437,735)	1,584,919
OTHER FINANCING SOURCES (USES)			
Interfund operating transfers out	(450,000)	(250,000)	200,000
Total other financing sources and uses	(450,000)	(250,000)	200,000
Net change in fund balances	\$ (2,472,654)	(687,735)	\$ 1,784,919
Fund balance, beginning of year		2,940,736	
Change in Inventory		252,353	
Fund balances - beginning as adjusted		3,193,089	
Fund balances, end of year		\$ 2,505,354	

The accompanying notes are an integral part of these schedules.

continued

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

OIL & NATURAL GAS PRODUCTION TAXES FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Investment and royalty earnings	\$ 10,000	\$ 15,286	\$ 5,286
Total revenues	10,000	15,286	5,286
EXPENDITURES			
General government	1,317,952	-	1,317,952
Housing and community development	30,000	45,000	(15,000)
Capital outlay	-	3,951	(3,951)
Total expenditures	1,347,952	48,951	1,299,001
Excess (deficiency) of revenues over expenditures	(1,337,952)	(33,665)	1,304,287
OTHER FINANCING SOURCES (USES)			
Interfund operating transfers out	(950,000)	(653,002)	296,998
Total other financing sources and uses	(950,000)	(653,002)	296,998
Net change in fund balances	\$ (2,287,952)	(686,667)	\$ 1,601,285
Fund balance, beginning of year		2,287,953	
Fund balances, end of year		\$ 1,601,286	

The accompanying notes are an integral part of these schedules.

continued

Phillips County

BUDGETARY COMPARISON SCHEDULES
for the year ended June 30, 2014

P.I.L.T. FUND

	Original & Final Budgeted Amounts	Actual Amounts	Variances
REVENUES			
Intergovernmental revenues	\$ 435,000	\$ 495,265	\$ 60,265
Investment and royalty earnings	5,000	9,967	4,967
Total revenues	440,000	505,232	65,232
EXPENDITURES			
Current:			
General government	2,127,885	18,974	2,108,911
Total expenditures	2,127,885	18,974	2,108,911
Excess (deficiency) of revenues over expenditures	(1,687,885)	486,258	2,174,143
OTHER FINANCING SOURCES (USES)			
Interfund operating transfers out	(500,000)	(630,000)	(130,000)
Total other financing sources and uses	(500,000)	(630,000)	(130,000)
Net change in fund balances	\$ (2,187,885)	(143,742)	\$ 2,044,143
Fund balance, beginning of year		2,187,885	
Fund balances, end of year		\$ 2,044,143	

The accompanying notes are an integral part of these schedules.

concluded

Phillips County

NOTES TO BUDGETARY COMPARISON SCHEDULES

June 30, 2014

NOTE A BUDGETED FUNDS

The County adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget and the final adoption of the budget by the later of the second Monday in August or within 45 calendar days of the receipt of the certified taxable valuations from the Department of Revenue. The County must also submit a copy of the final budget to the Department of Administration by the later of October 1 or 60 days after the receipt of taxable values from the Department of Revenue.

State statute limits the making of expenditures or incurring of obligations to the amount of the final budget as adopted or as amended. Budget transfers and amendments are authorized by law, and in some instances, may require further public hearings. Any budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations.

Appropriations are created by fund, function, and activity and may further be detailed by department. Expenditure limitations imposed by law extend to the department level which is identified as the legal level of budgetary control.

NOTE B BUDGETARY BASIS

The County's budgets are prepared on the budget basis (modified accrual basis, including encumbrances, of which the county has none) of accounting, which results in accounting for certain transactions on a basis other than generally accepted accounting principles (modified accrual). The County's accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the County's accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget and the final budget, which includes amendments. Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. Results of operations, on the budget basis of accounting, are presented for the general fund and major special revenue funds with legally adopted annual budgets, to provide a meaningful comparison of actual results with the budget.

Phillips County

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

June 30, 2014

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2012	n/a	n/a		n/a	n/a	n/a	n/a
2013	July 1, 2012	\$ -	\$ 2,544,078	\$ 2,544,078	0%	\$ 1,888,712	135%
2014	July 1, 2012	\$ -	\$ 2,544,078	\$ 2,544,078	0%	\$ 2,033,900	125%

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

Board of County Commissioners
Phillips County
PO Box 360
Malta, MT 59538

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Phillips County (the County) 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 referenced in the table of contents, and have issued our report thereon dated June 22, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County'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. We have identified findings 2014-01, 2014-02, and 2014-03 as significant deficiencies.

Our consideration of internal control over financial reporting 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 financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP
Helena, Montana
June 22, 2015

Phillips County

SUMMARY OF AUDITOR'S RESULTS

June 30, 2014

2014-002 Year-End Inventory Counts

Condition:

The county had not performed inventory counts at year end.

Criteria:

Physical counts of inventory should be performed at fiscal year-end and the results should be reviewed and reconciled to the accounting system. The perpetual inventory listing should be reconciled to the general ledger, with any large discrepancies investigated and explained.

Cause and Effect:

Inventory was not counted right at year end, instead the inventory count was performed several months after year end. This resulted in a discrepancy in the inventory balance at year end, and the expenses for the fiscal year.

Recommendation:

All inventory should be counted at the fiscal year end.

2014-003 Protested Taxes

Condition:

The county had not remitted all the state's portion of protested taxes to the state.

Criteria:

MCA 15-1-402(4)(b)(i) states that the county treasurer must remit the state's portion of protested taxes to the state.

Cause and Effect:

The state did not receive approximately \$13,090 of its portion of tax revenue from protested taxes from the county resulting in the county's balance of protested taxes being overstated.

Recommendation:

It is recommended that the county create an internal control activity in which the protested taxes are balanced on a regular basis, at least annually, to ensure that all appropriate payments are made.

Summary Schedule of Prior Year Audit Findings

2013-02 Exceeding Budget Authority

Resolved.