

PRAIRIE COUNTY
TERRY, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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PRAIRIE COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Deanna Bockness	Board Chairperson
Todd Devlin	Commissioner
Ann Marie Davis	Commissioner

ELECTED OFFICIALS

Toni Kalfell	County Clerk and Recorder/ Clerk of District Court
Jamie Smith	County Treasurer/ Superintendent of Schools
Duncan Hedges	County Sheriff
Dan Rice	County Attorney
Kathy Henry	Justice of the Peace
Dale Hellman	County Coroner
Timothy Rittal	Public Administrator

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

BRENT D. OLNESS, CPA
CURT D. WYSS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Prairie County
Terry, Montana

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

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

Other Matters

Required Supplementary Information

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Hess & Associates, PC

Billings, Montana
May 13, 2015

PRAIRIE COUNTY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 2,156,914	\$ 70,197	\$ 2,227,111
Investments	283,306	9,220	292,526
Receivables:			
Taxes and assessments	63,828	-	63,828
Governments	12,650	-	12,650
Ambulance	-	2,562	2,562
Capital assets:			
Land	27,125	-	27,125
Capital assets, net of accumulated depreciation	2,345,743	8,531	2,354,274
Total assets	4,889,566	90,510	4,980,076
LIABILITIES			
Accounts payable-vendors	4,900	-	4,900
Unearned revenues	45,310	-	45,310
Long-term liabilities:			
Due within one year:			
Capital leases	30,551	-	30,551
Compensated absences	19,656	-	19,656
Due in more than one year:			
Capital leases	394,543	-	394,543
Compensated absences	47,953	-	47,953
Total liabilities	542,913	-	542,913
NET POSITION			
Net investment in capital assets	1,947,774	8,531	1,956,305
Restricted for:			
Nonexpendable:			
Permanent fund: perpetual cemetery	59,880	-	59,880
General government	128,172	-	128,172
Public safety	155,139	-	155,139
Public works	413,314	-	413,314
Public health	50,835	-	50,835
Social and economic services	98,727	-	98,727
Culture and recreation	71,934	-	71,934
Capital projects	245,120	-	245,120
Unrestricted	1,175,758	81,979	1,257,737
Total net position	\$ 4,346,653	\$ 90,510	\$ 4,437,163

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 674,133	\$ 61,430	\$ 169	\$ -	\$ (612,534)	\$ -	\$ (612,534)
Public safety	274,975	89,783	42,902	12,650	(129,640)	-	(129,640)
Public works	822,987	108,055	292,294	-	(422,638)	-	(422,638)
Public health	112,957	20,514	8,210	-	(84,233)	-	(84,233)
Social and economic services	169,226	17,161	31,194	-	(120,871)	-	(120,871)
Culture and recreation	100,753	21,786	45,706	-	(33,261)	-	(33,261)
Interest on long-term debt	980	-	-	-	(980)	-	(980)
Total governmental activities	2,156,011	318,729	420,475	12,650	(1,404,157)	-	(1,404,157)
Business-type activities:							
Other enterprise funds	58,486	42,917	2,508	-	-	(13,061)	(13,061)
Total business-type activities	58,486	42,917	2,508	-	-	(13,061)	(13,061)
Total	\$ 2,214,497	\$ 361,646	\$ 422,983	\$ 12,650	(1,404,157)	(13,061)	(1,417,218)
General revenues:							
Property taxes					845,573	-	845,573
Licenses and permits					1,050	-	1,050
Intergovernmental					539,067	1,243	540,310
Unrestricted investment earnings					10,008	287	10,295
Miscellaneous					31,266	493	31,759
Gain on disposal of capital assets					34,085	-	34,085
Total general revenues					1,461,049	2,023	1,463,072
Change in net position					56,892	(11,038)	45,854
Net position - beginning					4,289,761	101,548	4,391,309
Net position - ending					\$ 4,346,653	\$ 90,510	\$ 4,437,163

PRAIRIE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Road	State Allocated Federal Mineral Royalties	Oil & Natural Gas Production Taxes	TIIP Grant	Total Nonmajor Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 288,286	\$ 154,977	\$ 273,097	\$ 454,089	\$ 45,310	\$ 941,155	\$ 2,156,914
Investments	37,866	20,356	35,871	59,643	-	129,570	283,306
Receivables:							
Taxes and assessments	8,411	9,915	-	-	-	45,502	63,828
Governments	-	-	-	12,650	-	-	12,650
Total assets	\$ 334,563	\$ 185,248	\$ 308,968	\$ 526,382	\$ 45,310	\$ 1,116,227	\$ 2,516,698
LIABILITIES							
Accounts payable-vendors	\$ -	\$ 4,900	\$ -	\$ -	\$ -	\$ -	\$ 4,900
Unearned revenues	-	-	-	-	45,310	-	45,310
Total liabilities	-	4,900	-	-	45,310	-	50,210
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue-taxes and assessments	8,411	9,915	-	-	-	45,502	63,828
Total deferred inflows of resources	8,411	9,915	-	-	-	45,502	63,828
FUND BALANCES							
Nonspendable							
Permanent fund:							
Perpetual cemetery	-	-	-	-	-	59,880	59,880
Restricted for:							
General government	-	-	-	-	-	117,661	117,661
Public safety	-	-	-	-	-	145,471	145,471
Public works	-	170,433	-	-	-	221,203	391,636
Public health	-	-	-	-	-	48,043	48,043
Social and economic services	-	-	-	-	-	92,137	92,137
Culture and recreation	-	-	-	-	-	67,756	67,756
Capital projects	-	-	-	-	-	245,120	245,120
Committed for:							
General government	-	-	308,968	526,382	-	-	835,350
Public health	-	-	-	-	-	2,318	2,318
Social and economic services	-	-	-	-	-	10,978	10,978
Culture and recreation	-	-	-	-	-	60,158	60,158
Unassigned	326,152	-	-	-	-	-	326,152
Total fund balances	326,152	170,433	308,968	526,382	-	1,070,725	2,402,660
Total liabilities, deferred inflows of resources and fund balances	\$ 334,563	\$ 185,248	\$ 308,968	\$ 526,382	\$ 45,310	\$ 1,116,227	\$ 2,516,698

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

Total fund balances, governmental funds \$ 2,402,660

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 2,372,868

Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds. 63,828

Some liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not included in the funds. (492,703)

Net position of governmental activities \$ 4,346,653

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

	General	Road	State Allocated Federal Mineral Royalties	Oil & Natural Gas Production Taxes	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 185,025	\$ 122,147	\$ -	\$ -	\$ 588,653	\$ 895,825
Fines and forfeitures	13,259	-	-	-	220	13,479
Licenses and permits	-	-	-	-	1,050	1,050
Intergovernmental	209,910	76,869	76,718	313,629	245,901	923,027
Charges for services	62,487	13,401	-	-	168,667	244,555
Investment earnings	5,213	-	1,137	1,771	1,664	9,785
Miscellaneous	8,864	6,568	-	-	65,002	80,434
Total revenues	484,758	218,985	77,855	315,400	1,071,157	2,168,155
EXPENDITURES						
Current:						
General government	401,673	13,772	19,954	53,407	170,489	659,295
Public safety	4,644	-	-	-	234,134	238,778
Public works	-	212,378	-	238,723	290,460	741,561
Public health	7,841	-	-	-	103,433	111,274
Social and economic services	4,793	-	-	-	153,616	158,409
Culture and recreation	2,000	-	-	-	87,392	89,392
Debt service:						
Principal	-	11,497	-	11,903	-	23,400
Interest and other charges	-	535	-	445	-	980
Capital outlay	-	241,050	-	43,029	38,474	322,553
Total expenditures	420,951	479,232	19,954	347,507	1,077,998	2,345,642
Excess (deficiency) of revenues over expenditures	63,807	(260,247)	57,901	(32,107)	(6,841)	(177,487)
OTHER FINANCING SOURCES (USES)						
Capital leases	-	241,050	-	-	-	241,050
Transfers in	1,000	-	-	-	119,225	120,225
Transfers out	(35,500)	(79,425)	-	(5,300)	-	(120,225)
Total other financing sources (uses)	(34,500)	161,625	-	(5,300)	119,225	241,050
Net change in fund balances	29,307	(98,622)	57,901	(37,407)	112,384	63,563
Fund balances - beginning	296,845	269,055	251,067	563,789	958,341	2,339,097
Fund balances - ending	\$ 326,152	\$ 170,433	\$ 308,968	\$ 526,382	\$ 1,070,725	\$ 2,402,660

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

Net change in fund balances - total governmental funds	\$ 63,563
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which capital outlay (\$322,553) exceeded depreciation (\$158,172) in the current period.	164,381
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net position.	34,085
<p>Revenues in the statement of activities that do not provide current financial resources are reported as unavailable revenues in the governmental funds.</p>	
Unavailable revenues-taxes and assessments	10,663
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt repaid exceeded debt issued.</p>	
	(217,650)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	<u>1,850</u>
Change in net position of governmental activities	<u><u>\$ 56,892</u></u>

PRAIRIE COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	Enterprise Funds
	Other Enterprise Funds
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 70,197
Investments	9,220
Receivables:	
Ambulance	2,562
Total current assets	81,979
Non-current assets:	
Capital assets:	
Equipment and furniture	95,111
Less: accumulated depreciation	(86,580)
Total capital assets, net	8,531
Total assets	90,510
NET POSITION	
Net investment in capital assets	8,531
Unrestricted	81,979
Total net position	\$ 90,510

PRAIRIE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Enterprise Funds
	Other Enterprise Funds
REVENUES	
Charges for services	\$ 42,917
Total operating revenues	42,917
OPERATING EXPENSES	
Personal services	35,288
Supplies	13,495
Fixed charges	3,506
Depreciation	6,197
Total operating expenses	58,486
Operating loss	(15,569)
NON-OPERATING REVENUES	
Interest revenue	287
Intergovernmental	1,243
Miscellaneous revenue	493
Operating grants and contributions	2,508
Total non-operating revenues	4,531
Change in net position	(11,038)
Net position - beginning	101,548
Net position - ending	\$ 90,510

PRAIRIE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Enterprise Funds
	Other Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 46,298
Cash paid to employees	(35,288)
Cash paid to suppliers for goods and services	(17,001)
Net cash used by operating activities	(5,991)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash received from operating grants and contributions	2,508
Cash received from other governments	1,243
Cash received from miscellaneous sources	493
Net cash provided by noncapital financing activities	4,244
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net change in investments	(1,194)
Interest received	287
Net cash used by investing activities	(907)
Change in cash and cash equivalents	(2,654)
Cash and cash equivalents - beginning	72,851
Cash and cash equivalents - ending	\$ 70,197
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (15,569)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	6,197
Decrease in accounts receivable	3,381
Net cash used by operating activities	\$ (5,991)

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

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,340,916	\$ 38,078
Investments	307,474	-
Taxes and assessments receivable	-	90,496
Total assets	2,648,390	\$ 128,574
LIABILITIES		
Accounts payable	-	\$ 5,964
Due to special districts	-	18,504
Due to state	-	25,486
Due to schools	-	53,438
Due to cities/towns	-	25,182
Total liabilities	-	\$ 128,574
NET POSITION		
Held in trust for external investment pool participants	\$ 2,648,390	

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

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 746,525
Investment earnings	6,645
Total additions	753,170
DEDUCTIONS	
Distributions	717,313
Total deductions	717,313
Change in net position	35,857
Net position - beginning	2,612,533
Net position - ending	\$ 2,648,390

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major governmental funds:

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

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

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

The public safety fund accounts for property taxes, state entitlement and charges for services and payments made for providing law enforcement and public safety services.

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

The oil & natural gas production taxes fund accounts for resources received from oil and gas activity in the county.

The TIIP grant fund accounts for a tourism grant that will be used for library improvements.

Additionally, the government reports the following fund types:

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

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

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

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 51% of the investment pool belongs to these districts.

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

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

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

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

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Receivables

Ambulance receivable bad debts are written-off using the direct write-off method. Use of this method does not result in a material difference from the allowance method required by generally accepted accounting principles.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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

Inventories

Inventories are considered immaterial and therefore not recorded.

Capital Assets

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

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was not capitalized interest for the year ended June 30, 2014.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	15-50
Infrastructure	30
Machinery and equipment	6-10

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

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

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

Proprietary fund equity is classified the same as in the government-wide statements.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and **proprietary fund** financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the clerk and recorder and/or commissioners to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 2,440,220
Business-type activities	79,417
Fiduciary funds	<u>2,686,468</u>
	<u><u>\$ 5,206,105</u></u>

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

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 300	\$ -	\$ 300
Cash in banks:			
Demand deposits	842,610	-	842,610
Savings deposits	3,513,195	-	3,513,195
Time deposits	250,000	-	250,000
U.S. Government securities	-	<u>600,000</u>	<u>600,000</u>
	<u>\$ 4,606,105</u>	<u>\$ 600,000</u>	<u>\$ 5,206,105</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$4,053,941 of the government's bank balance of \$4,809,810 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>\$ 4,053,941</u>
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State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2014, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2014 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
U.S. Government securities	1.00 to 1.50%	Vairous	\$ 600,000	<u>\$ 600,000</u>	<u>\$ 601,393</u>	100.00%

Interest Rate Risk. The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, under state statute, an investment may not have a maturity date exceeding 5 years, except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 600,000	\$ -	\$ -	\$ 600,000	\$ 601,393

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

	Internal	External	Total
Net position - beginning of year	\$ 2,477,582	\$ 2,612,533	\$ 5,090,115
Contributions from participants	1,533,294	746,525	2,279,819
Investment earnings	10,295	6,645	16,940
Distributions to participants	(1,463,456)	(717,313)	(2,180,769)
Net position - end of year	\$ 2,557,715	\$ 2,648,390	\$ 5,206,105

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 27,125	\$ -	\$ -	\$ 27,125
Total capital assets, not being depreciated	27,125	-	-	27,125
Capital assets, being depreciated				
Buildings/improvements	1,914,471	26,125	-	1,940,596
Machinery and equipment	1,745,829	352,328	(80,173)	2,017,984
Total capital assets, being depreciated	3,660,300	378,453	(80,173)	3,958,580
Less accumulated depreciation for:				
Buildings/improvements	(489,868)	(40,577)	-	(530,445)
Machinery and equipment	(1,023,155)	(117,595)	58,358	(1,082,392)
Total accumulated depreciation	(1,513,023)	(158,172)	58,358	(1,612,837)
Total capital assets, being depreciated, net	2,147,277	220,281	(21,815)	2,345,743
Governmental activities capital assets, net	\$ 2,174,402	\$ 220,281	\$ (21,815)	\$ 2,372,868
Business-type activities:				
Capital assets, being depreciated				
Machinery and equipment	\$ 95,111	\$ -	\$ -	\$ 95,111
Less: accumulated depreciation	(80,383)	(6,197)	-	(86,580)
Business-type activities capital assets, net	\$ 14,728	\$ (6,197)	\$ -	\$ 8,531

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 14,942
Public safety	41,866
Public works	79,468
Public health	1,430
Social and economic	9,901
Culture and recreation	<u>10,565</u>
Total depreciation-governmental activities	<u>\$ 158,172</u>
Business-type activities:	
Ambulance	<u>\$ 6,197</u>

Interfund Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 1,000	\$ (35,500)	\$ (34,500)
Road	-	(79,425)	(79,425)
Oil & Natural Gas Production Taxes	-	(5,300)	(5,300)
Nonmajor governmental funds	<u>119,225</u>	<u>-</u>	<u>119,225</u>
	<u>\$ 120,225</u>	<u>\$ (120,225)</u>	<u>\$ -</u>

Transfers use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Capital Leases

The government has entered into a capital lease agreement for a motor grader under which the related equipment will become the property of the government when all terms of the lease agreement are met. Assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 542,697
Less: accumulated depreciation	<u>(51,996)</u>
	<u>\$ 490,701</u>

The future minimum lease obligations and the present value of these minimum lease payments, as of June 30, 2014, are as follows:

	Year ending June 30,	Governmental Activities
	2015	\$ 42,722
	2016	42,722
	2017	42,722
	2018	177,627
	2019	<u>167,388</u>
Total minimum lease payments		473,181
Less: amount representing interest		<u>(48,087)</u>
Present value of minimum lease payments		<u>\$ 425,094</u>

Long-Term Debt

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Capital leases	\$ 195,947	\$ 241,050	\$ (11,903)	\$ 425,094	\$ 30,551
Notes payable	11,497	-	(11,497)	-	-
Compensated absences	69,458	-	(1,850)	67,608	19,656
Governmental activity long-term liabilities	<u>\$ 276,902</u>	<u>\$ 241,050</u>	<u>\$ (25,250)</u>	<u>\$ 492,702</u>	<u>\$ 50,207</u>

For the governmental activities, capital leases are liquidated within the Federal Mineral Royalty fund. Compensated absences are paid from the fund in which the employee is paid.

NOTE 3. OTHER INFORMATION

Risk Management

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

Interlocal Agreements

The County provides law enforcement and dispatch services to the Town of Terry. During fiscal year 2014, the Town contributed \$69,297 for these services. The County also contracts with the Town of Terry for solid waste disposal in the Fallon Disposal District. The County paid \$38,171 for these services.

Economic Dependency

Approximately 40 percent of the County's taxable value is attributable to utility and transportation companies.

Contingencies

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

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

Retirement Plans

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

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

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

PRAIRIE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

payroll, were as follows:

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

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

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

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

	2014	2013	2012
SRS	\$ 22,536	\$ 23,268	\$ 21,237
PERS	119,051	106,814	93,679
	\$ 141,587	\$ 130,082	\$ 114,916

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes and assessments	\$ 182,068	\$ 182,068	\$ 185,025
Fines and forfeitures	15,000	15,000	13,259
Intergovernmental	176,000	176,000	209,910
Charges for services	48,000	48,000	62,487
Investment earnings	5,000	5,000	5,213
Miscellaneous	6,500	6,500	8,864
Total revenues	432,568	432,568	484,758
EXPENDITURES			
Current:			
General government	490,301	491,301	401,673
Public safety	9,336	9,336	4,644
Public health	9,350	9,350	7,841
Social and economic services	4,600	4,600	4,793
Culture and recreation	2,000	2,000	2,000
Capital outlay	10,000	10,000	-
Total expenditures	525,587	526,587	420,951
Excess (deficiency) of revenues over expenditures	(93,019)	(94,019)	63,807
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	1,000
Transfers out	(35,500)	(35,500)	(35,500)
Total other financing sources (uses)	(35,500)	(35,500)	(34,500)
Net change in fund balance	\$ (128,519)	\$ (129,519)	29,307
Fund balance - beginning			296,845
Fund balance - ending			\$ 326,152

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

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes and assessments	\$ 127,106	\$ 127,106	\$ 122,147
Intergovernmental	60,000	60,000	76,869
Charges for services	2,000	2,000	13,401
Miscellaneous	6,000	6,000	6,568
Total revenues	<u>195,106</u>	<u>195,106</u>	<u>218,985</u>
EXPENDITURES			
Current:			
General government	-	15,000	13,772
Public works	254,075	259,075	212,378
Debt service:			
Principal	12,000	12,000	11,497
Interest and other charges	1,000	1,000	535
Capital outlay	-	241,050	241,050
Total expenditures	<u>267,075</u>	<u>528,125</u>	<u>479,232</u>
Excess (deficiency) of revenues over expenditures	<u>(71,969)</u>	<u>(333,019)</u>	<u>(260,247)</u>
OTHER FINANCING SOURCES (USES)			
Capital leases	-	241,050	241,050
Transfers out	-	(158,850)	(79,425)
Total other financing sources (uses)	<u>-</u>	<u>82,200</u>	<u>161,625</u>
Net change in fund balance	<u>\$ (71,969)</u>	<u>\$ (250,819)</u>	<u>(98,622)</u>
Fund balance - beginning			<u>269,055</u>
Fund balance - ending			<u>\$ 170,433</u>

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Intergovernmental	\$ 90,000	\$ 90,000	\$ 76,718
Investment earnings	-	-	1,137
Total revenues	<u>90,000</u>	<u>90,000</u>	<u>77,855</u>
EXPENDITURES			
Current:			
General government	90,000	90,000	19,954
Capital outlay	<u>251,066</u>	<u>251,066</u>	<u>-</u>
Total expenditures	<u>341,066</u>	<u>341,066</u>	<u>19,954</u>
Net change in fund balance	<u>\$ (251,066)</u>	<u>\$ (251,066)</u>	57,901
Fund balance - beginning			<u>251,067</u>
Fund balance - ending			<u>\$ 308,968</u>

PRAIRIE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Oil & Natural Gas Production Taxes Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 100,000	\$ 100,000	\$ 313,629
Investment earnings	-	-	1,771
Total revenues	100,000	100,000	315,400
EXPENDITURES			
Current:			
General government	244,720	244,720	53,407
Public works	-	-	238,723
Debt service:			
Principal	-	-	11,903
Interest and other charges	-	-	445
Capital outlay	414,680	414,680	43,029
Total expenditures	659,400	659,400	347,507
Excess (deficiency) of revenues over expenditures	(559,400)	(559,400)	(32,107)
OTHER FINANCING USES			
Transfers out	-	-	(5,300)
Total other financing uses	-	-	(5,300)
Net change in fund balance	\$ (559,400)	\$ (559,400)	(37,407)
Fund balance - beginning			563,789
Fund balance - ending			\$ 526,382

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

BUDGETARY INFORMATION

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

Budgetary comparison information is not presented for the TIIP Grant fund because there were not any planned expenditures during fiscal year 2014. The grant funding occurred in June 2014 and reflected as unearned revenue in the financial statements.

OLNESS & ASSOCIATES, P. C.

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

To the Board of County Commissioners
Prairie County
Terry, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Prairie County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 13, 2015. The report on governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 through 2014-004)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency. (Finding 2014-005)

Compliance and Other Matters

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

The Government's Response to Findings

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Neal & Associates, PC

Billings, Montana
May 13, 2015

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

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

2014-002. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

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

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

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

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

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

2014-003. SEGREGATION OF DUTIES

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

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

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

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

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

2014-004. JUSTICE OF THE PEACE

Criteria: A complete and accurate reconciliation of the trust account that is compared to a list of items being held in the account provides evidence that all cash transactions have been recorded properly and helps to discover bank and departmental errors.

Condition: The trust account reconciliation contained numerous errors, adjustments, unknown items and incorrect information. Further, the reconciled balance is not compared to a list of items being held in trust to ensure the two agree.

Cause: Unknown

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

Effect: Erroneous reconciliations and not maintaining a list to support the reconciled balance in the account means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The Justice of the Peace should contact the Montana Supreme Court for assistance in clearing out all unreconciled differences and errors. Once completed, the court activity maintained in the Full Court system should be balanced to the bank statement on a monthly basis.

2014-005. REQUIRED SUPPLEMENTARY INFORMATION

Criteria: Accounting principles generally accepted in the United States of America require the management's discussion and analysis to be presented to supplement the basic financial statements.

Condition: Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

Cause: Unknown.

Effect: Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Recommendation: On an annual basis, the County should develop a management's discussion and analysis as required by accounting principles generally accepted in the United States.

PRAIRIE COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-4. JUSTICE OF THE PEACE	NOT IMPLEMENTED