

SHERIDAN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

SHERIDAN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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SHERIDAN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF COUNTY COMMISSIONERS**

William "Bill" Nyby  
Rovert Nikolaisen  
Keith Clawson

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Steven Howard  
Kathy Holte  
June Johnson  
Teresa McCauley  
Larry Jensen  
June Johnson  
Patrick Ulrickson

County Attorney  
Treasurer  
Clerk and Recorder / Assessor  
Clerk of District Clerk  
Justice of the Peace  
School Superintendent  
Sheriff

**SHERIDAN COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year ending June 30, 2014**

In 1999 the Governmental Accounting Standards Board (GASB) issued a new accounting standard that essentially revised the form of governmental entities' financial statements. Sheridan County implemented the new format for the fiscal year ending June 30, 2004.

As management of Sheridan County, Plentywood, Montana, we offer readers of the basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here.

**Financial Highlights**

- The county's net position of its governmental activities funds exceeded its liabilities at June 30, 2014, by \$18,517,955. Of this amount, \$4,363,605 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The use of the balance of the net position totaling \$7,729,440 is restricted, since \$6,424,910 is invested in capital assets (net of related debt), \$671,353 is restricted for general government, \$1,226,594 is restricted for public safety, \$4,869,895 is restricted for public works, \$118,249 is restricted for public health, \$244,679 is restricted for social and economic services, and \$598,670 is restricted for culture and recreation.
- The net position of its business-type activities fund, the solid waste district, exceeded its liabilities by \$247,369. Of this amount, \$0.00 (unrestricted net position) may be used to meet the landfills' ongoing obligations to citizens and creditors. The use of the balance of the net position \$247,369, is restricted for other purposes, since \$120,872 is invested in capital assets (net of related debt) and \$140,501 is restricted, for other purposes.
- The county's governmental funds reported combined ending fund balances of \$12,348,092. Of this amount, all but \$5,793,427 was available for spending at the government's discretion.
- Fund balances in the major funds were \$4,664,461 in the General Fund, \$2,986,578 in the Road Fund, and \$338,685 in the Public Safety Fund. In the General Fund, \$7,944 of the total was nonspendable and 4,656,517 was unassigned. In the Road Fund, \$1,172,846 of the total was nonspendable and \$1,813,732 was restricted. In the Public Safety Fund the total fund balance of \$338,685 was restricted.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Sheridan County's basic financial statements. Where prior year information is available, a comparative analysis of government-wide data is presented. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

**Government-wide financial statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the county's finances, in a manner similar to a private-sector business. One of the most important questions asked about the county's finances is, "Is the county as a whole better off or worse off as a result of the year's activities?" The *Statement of Net Position* and the *Statement of Activities* report information about the county as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the county's net position and changes in it. The county's net position - the difference between assets and liabilities - is one way to measure the financial position of the county. Over time, increases or decreases in the county's net position is an indicator of whether the financial health is improving or deteriorating. Non-financial factors such as changes in the county's property tax base or the condition of the county roads also need to be considered in assessing the financial position of the county.

The Statement of Net Position and the Statement of Activities distinguishes between the following activities:

- Governmental Activities - most of the county's basic services are reported here, including public safety, public works, health, culture and recreation, social services and general administration. Property taxes, local option vehicle taxes, investment earnings and state and federal grants/shared revenues finance most of these activities.
- Business-type activities - the county charges a fee to customers to recover the cost of certain services provided. The solid waste district is reported here.

The government-wide statements can be found on pages 13 and 14 of this report.

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds, not the county as a whole. Some funds are required to be established by state law and by bond covenants. Also, the board of county commissioners establishes funds to help control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money.

The county maintains three types of funds, governmental, proprietary, and fiduciary.

**SHERIDAN COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year ending June 30, 2014**

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. These funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending. These funds use the modified accrual method of accounting, 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. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Sheridan County maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road fund and public safety fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the combining statements elsewhere in this report.

**Proprietary funds:** When customers of the solid waste district are charged for the services it provides it is reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities but provides more detail and additional information such as the statement of cash flow. Since Sheridan County is self-insured, those health insurance activities are reported in the Internal Service fund. The Internal Service fund is reported with the Proprietary funds in the Governmental Fund statements but is rolled into the governmental activities on the government wide Statement of Net Position and the Statement of Activities.

**Fiduciary funds:** 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. The county, however, is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided.

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

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

There are some variations between the original revenue estimates and actual revenues received. This is normal for Sheridan County since it attempts to keep the budget estimates low so that any unforeseen reductions to larger revenue sources can be absorbed.

There are also variations between the original budget estimates and actual budget expended. Most of these differences are found in grant funds of the "reimbursable" type. A separate resolution is passed at the end of the year to set the appropriations for these funds, based on expenditures made during the year. In addition, no budget is set for the self-insurance fund since health care costs are impossible to predict.

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

*Net Position*

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 13,022,864	\$ 11,490,989	\$ 1,531,875	\$ 657,834	\$ 619,073	\$ 38,761
Capital assets	6,424,910	6,501,355	(76,445)	120,872	150,834	(29,962)
Total assets	<u>\$ 19,447,774</u>	<u>\$ 17,992,344</u>	<u>\$ 1,455,430</u>	<u>\$ 778,706</u>	<u>\$ 769,907</u>	<u>\$ 8,799</u>
Long-term debt outstanding	\$ 820,784	\$ 625,730	\$ 195,054	\$ 42,732	\$ 30,135	\$ 12,597
Other liabilities	109,035	94,843	14,192	488,605	466,361	22,244
Total liabilities	<u>\$ 929,819</u>	<u>\$ 720,573</u>	<u>\$ 209,246</u>	<u>\$ 531,337</u>	<u>\$ 496,496</u>	<u>\$ 34,841</u>
Net investment in capital assets	\$ 6,424,910	\$ 6,535,355	(110,445)	\$ 120,872	\$ 150,834	(29,962)
Restricted	7,731,440	8,675,503	(944,063)	224,967	122,577	102,390
Unrestricted (deficit)	4,361,605	2,060,913	2,300,692	(98,470)	-	(98,470)
Total net position	<u>\$ 18,517,955</u>	<u>\$ 17,271,771</u>	<u>\$ 1,246,184</u>	<u>\$ 247,369</u>	<u>\$ 273,411</u>	<u>\$ (26,042)</u>

The largest portion of the county's net position, \$6,424,910 (37%), reflects its investment in capital assets (e.g., land, building, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 41%, \$7,729,440, of the county's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$4,363,605 (24%), may be used to meet the government's ongoing obligations to citizens and creditors.

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

**Changes in Net Position**

	<b>Governmental Activities</b>			<b>Business type Activities</b>		
	<b><u>FY14</u></b>	<b><u>FY13</u></b>	<b><u>Change Inc (Dec)</u></b>	<b><u>FY14</u></b>	<b><u>FY13</u></b>	<b><u>Change Inc (Dec)</u></b>
<b>Revenues:</b>						
<i>Program Revenues (by major source):</i>						
Charges for services	922,691	1,225,635	(302,944)	320,037	233,660	86,377
Operating grants and contributions	352,783	345,479	7,304	-	-	-
Capital grants and contributions	78,146	16,517	61,629	-	-	-
<i>General Revenues (by major source):</i>						
Property taxes for general purposes	2,346,374	2,207,285	139,089	714	774	(60)
Licenses & permits	4,900	3,725	1,175	-	-	-
Miscellaneous	667	150	517	-	-	-
Interest/investment earnings	29,579	201,312	(171,733)	1,715	2,190	(475)
Oil royalties	1,000,900	939,315	61,585	-	-	-
State entitlement	713,035	595,214	117,821	-	-	-
Grant and Local option taxes not restricted to specific program	24,438	610	23,828	-	-	-
Montana Oil & Gas Production Tax	2,238,176	2,279,421	(41,245)	-	-	-
Local Option Taxes	216,038	210,588	5,450	-	-	-
<b>Total Revenues</b>	<b>\$7,927,727</b>	<b>8,025,251</b>	<b>(97,524)</b>	<b>322,466</b>	<b>236,624</b>	<b>\$85,842</b>
<b>Program Expenses:</b>						
General government	2,186,584	2,088,827	97,757	-	-	-
Public safety	1,369,969	1,323,802	46,167	-	-	-
Public works	2,705,516	2,598,849	106,667	-	-	-
Public health	276,128	318,084	(41,956)	-	-	-
Social and economic services	407,747	401,939	5,808	-	-	-
Culture and recreation	531,972	460,819	71,153	-	-	-
Housing and Community Development	5,178	7,678	(2,500)	-	-	-
Conservation of Natural Resources	2,889	52,944	(50,055)	-	-	-
Miscellaneous	5,560	1,000	4,560	-	-	-
Solid Waste	-	-	-	348,508	273,143	75,365
<b>Total expenses</b>	<b>\$7,491,543</b>	<b>\$7,253,942</b>	<b>\$237,601</b>	<b>\$348,508</b>	<b>\$273,143</b>	<b>75,365</b>
Excess (deficiency) before special items and transfers	436,184	771,309	(335,125)	(26,042)	(36,519)	10,477
Gain (loss) on sale of capital assets	-	35,150	(35,150)	-	-	-
Transfers - net	-	7,250	(7,250)	-	(7,250)	7,250
<b>Increase (decrease) in net position</b>	<b>\$436,184</b>	<b>\$813,709</b>	<b>\$(377,525)</b>	<b>(\$26,042)</b>	<b>(\$43,769)</b>	<b>\$17,727</b>

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**Governmental Activities:** Governmental activities increased Sheridan County's net position by \$109,274.

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

The cost of governmental activities was \$7,818,453, ranked in order of most expense:

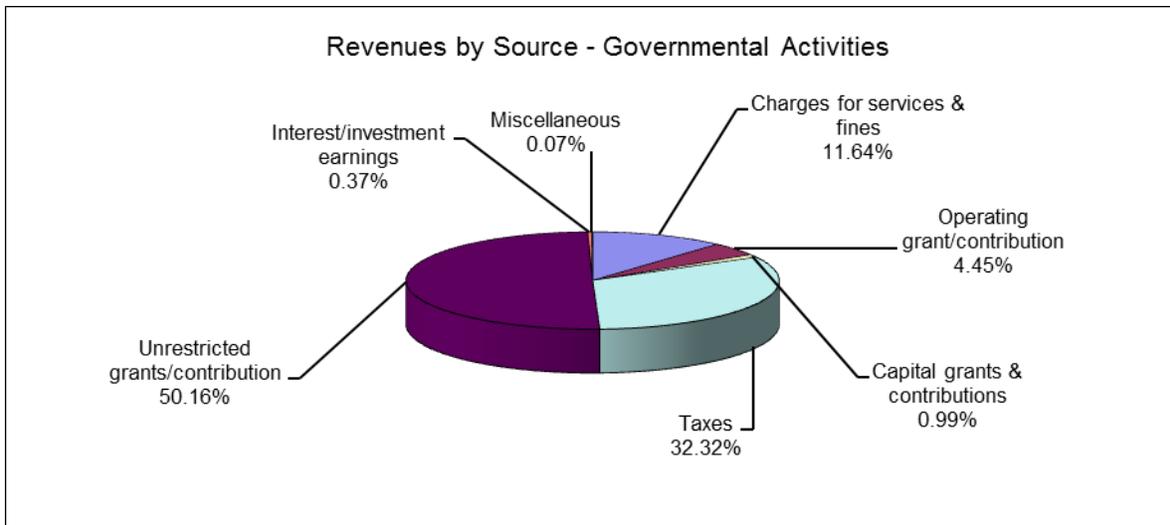
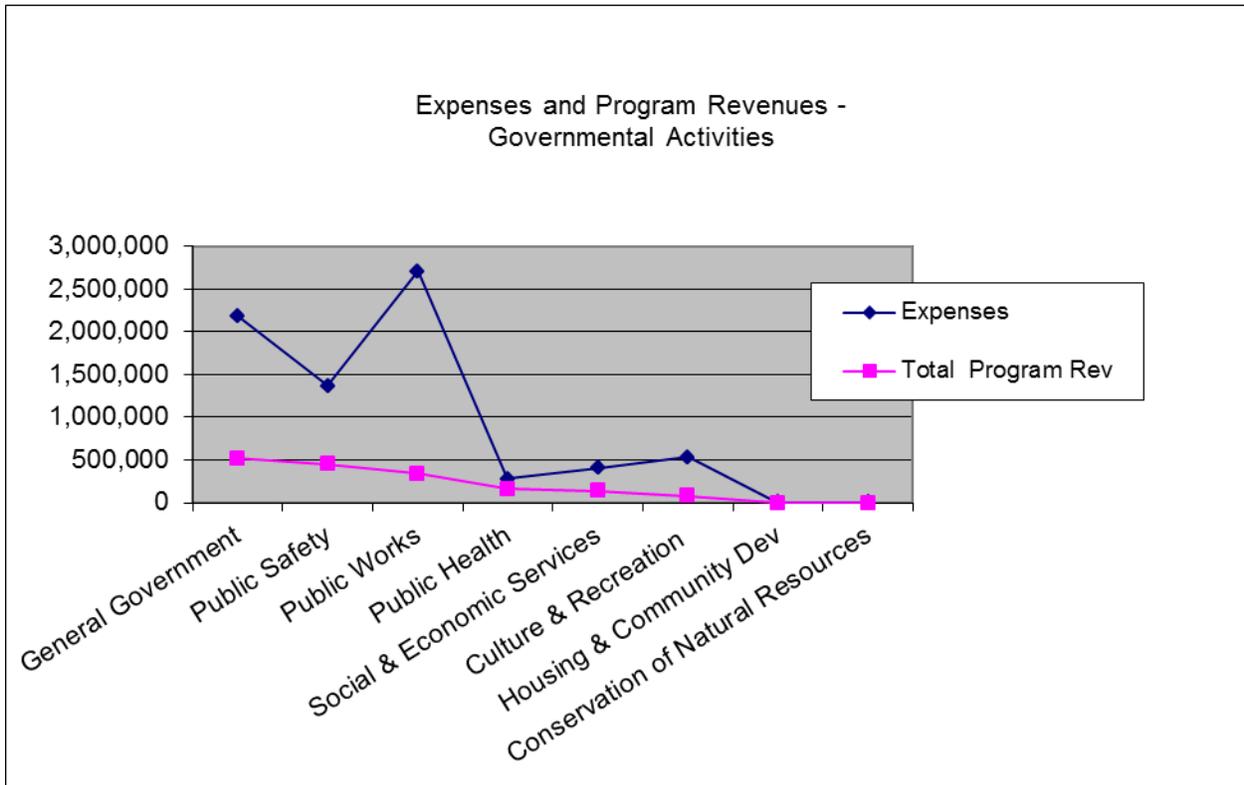
Public Works	2,705,516	36%
General Government	2,186,584	29%
Public Safety	1,369,969	18%
Culture & Recreation	531,972	7%
Social & Economic Services	407,747	5%
Public Health	276,128	4%
Miscellaneous	5,560	0%
Housing & Comm Development	5,178	<1%
Conservation of Nat'l Resources	2,889	<1%
Total Cost of Governmental Activities	7,491,543	100%

Of the \$7,491,543 expended, Sheridan County taxpayers contributed \$2,562,412 through property and local option taxes. Revenue received also included \$927,591 from those benefiting from the programs, \$4,407,478 from other governments and organizations through grants, contributions and shared revenues, as well as \$29,579 investment earnings.

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

	Net Cost
1. General Government	1,997,421
2. Public Safety	919,915
3. Public Works	2,364,886
4. Public Health	117,081
5. Social & Economic Services	268,235
6. Culture & Recreation	456,778
7. Housing & Community Dev	5,178
8. Conservation of Natural Resources	2,889

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**



...

**Business Activities:** Operation of the landfill, which is a business-type activity, saw a loss of net position of \$26,042. Expenses exceeded user fees (charges for services) by \$28,470. Investment earnings totaled \$1,714 and \$714 in revenue was received for special assessments.

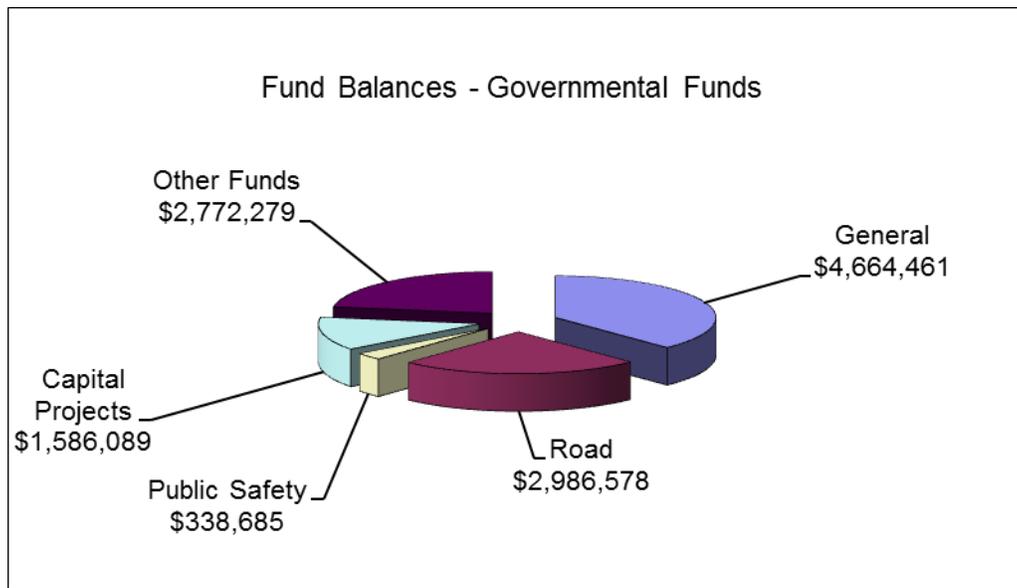
**SHERIDAN COUNTY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

**THE COUNTY’S FUNDS**

**Governmental funds**

Three of the county’s governmental funds are considered “major”; the General Fund, the Road Fund and the Public Safety Fund. Ending fund balances were \$4,664,461, \$2,986,578 and \$338,685 respectively, totaling \$7,989,724 or 65 percent of the combined total of all governmental funds, which was \$12,348,092.

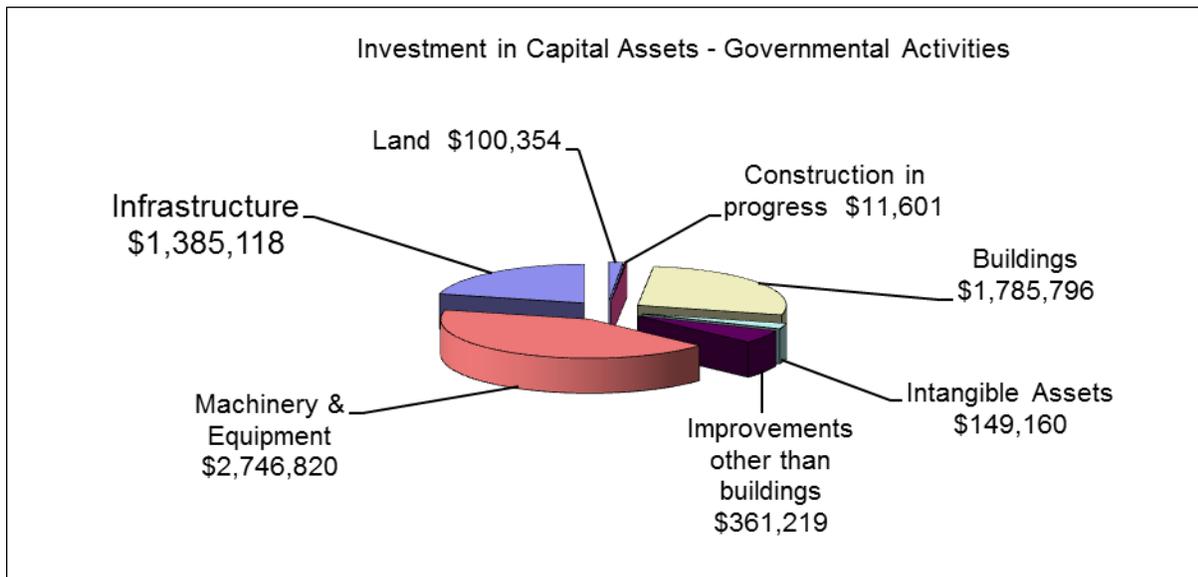
The county has ten capital projects funds, which are used to acquire and/or construct major, long-lived capital facilities other than those financed by enterprise funds. Their combined fund balances are \$1,586,089.



**Capital Asset and Debt Administration**

**Capital assets:** Sheridan County’s investment in capital assets (net of accumulated depreciation) for its governmental and business type activities was \$6,424,910. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**



Major capital asset purchases during the fiscal year included the following:

- Finished Hilltop Parking Lot totaling \$121,504.
- County shop electric heat system totaling \$46,510.
- County shop roof totaling \$40,900.
- Two 2014 Semi Trucks totaling \$194,800.
- Two 2015 International Truck with box/plow totaling \$260,780.
- Two Grader mount retriever w/ lift assembly \$29,645.
- Pat Trap Wobble Machine totaling \$8,450.
- Replaced two bridge/culverts totaling \$23,779.
- 2014 Ford Interceptor totaling \$36,914.

**SHERIDAN COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year ending June 30, 2014**

**Long-term debt:** The County had no outstanding debt and \$287,327 in compensated absences payable.

**The Government's Future**

The flurry of oil and gas activity in the last few years related to the Bakken and Three forks formations, has stabilized and slowed down, lessening immediate demand for government services.

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Sheridan County  
Plentywood, Montana

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2014, the County, Sheridan County, Montana has a change in accounting principle based on previously implemented accounting guidance, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 11, 48 through 51, and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

June 22, 2015

**Sheridan County, Montana**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 11,568,338	\$ 421,792	\$ 11,990,130
Taxes and assessments receivable, net	73,550	-	73,550
Special assessments receivable	-	11,075	11,075
Accounts receivable - net	9,865	-	9,865
Contracts receivable	115,000	-	115,000
Due from other governments	43,370	-	43,370
Inventories	1,212,741	-	1,212,741
Total current assets	<u>\$ 13,022,864</u>	<u>\$ 432,867</u>	<u>\$ 13,455,731</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 224,967	\$ 224,967
Capital assets - land	100,355	18,428	118,783
Capital assets - construction in progress	11,601	-	11,601
Intangible assets non-depreciable	34,000	102,444	136,444
Capital assets - depreciable, net	6,278,954	-	6,278,954
Total noncurrent assets	<u>\$ 6,424,910</u>	<u>\$ 345,839</u>	<u>\$ 6,770,749</u>
Total assets	<u>\$ 19,447,774</u>	<u>\$ 778,706</u>	<u>\$ 20,226,480</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 26,854	\$ -	\$ 26,854
Accrued payroll	82,081	4,398	86,479
Revenues collected in advance	100	-	100
Current portion of compensated absences payable	195,011	6,152	201,163
Total current liabilities	<u>\$ 304,046</u>	<u>\$ 10,550</u>	<u>\$ 314,596</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 484,207	\$ 484,207
Noncurrent portion of long-term liabilities - OPEB	533,457	35,213	568,670
Noncurrent portion of compensated absences	92,316	1,367	93,683
Total noncurrent liabilities	<u>\$ 625,773</u>	<u>\$ 520,787</u>	<u>\$ 1,146,560</u>
Total liabilities	<u>\$ 929,819</u>	<u>\$ 531,337</u>	<u>\$ 1,461,156</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 6,424,910	\$ 120,872	\$ 6,545,782
Restricted for debt service	-	224,967	224,967
Restricted for capital projects	1,586,089	-	1,586,089
Restricted for special projects	6,111,017	-	6,111,017
Restricted for other purposes	34,334	-	34,334
Unrestricted	4,361,605	(98,470)	4,263,135
Total net position	<u>\$ 18,517,955</u>	<u>\$ 247,369</u>	<u>\$ 18,765,324</u>

See accompanying Notes to the Financial Statements

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

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expenses) Revenues and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government</b>		
					<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,186,584	\$ 189,163	\$ -	\$ -	\$ (1,997,421)	\$ -	\$ (1,997,421)
Public safety	1,369,969	356,382	93,672	-	(919,915)	-	(919,915)
Public works	2,705,516	169,586	92,918	78,146	(2,364,866)	-	(2,364,866)
Public health	276,128	72,448	86,599	-	(117,081)	-	(117,081)
Social and economic services	407,747	64,883	74,629	-	(268,235)	-	(268,235)
Culture and recreation	531,972	70,229	4,965	-	(456,778)	-	(456,778)
Housing and community development	5,178	-	-	-	(5,178)	-	(5,178)
Conservation of natural resources	2,889	-	-	-	(2,889)	-	(2,889)
Miscellaneous	5,560	-	-	-	(5,560)	-	(5,560)
Total governmental activities	\$ <u>7,491,543</u>	\$ <u>922,691</u>	\$ <u>352,783</u>	\$ <u>78,146</u>	\$ <u>(6,137,923)</u>	\$ <u>-</u>	\$ <u>(6,137,923)</u>
Business-type activities:							
Landfill	\$ <u>348,508</u>	\$ <u>320,037</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(28,471)</u>	\$ <u>(28,471)</u>
Total primary government	\$ <u>7,840,051</u>	\$ <u>1,242,728</u>	\$ <u>352,783</u>	\$ <u>78,146</u>	\$ <u>(6,137,923)</u>	\$ <u>(28,471)</u>	\$ <u>(6,166,394)</u>
General Revenues:							
Property taxes for general purposes					\$ 2,346,374	\$ 714	\$ 2,347,088
Licenses and permits					4,900	-	4,900
Miscellaneous					667	-	667
Interest/investment earnings					29,579	1,715	31,294
Oil Royalties					1,000,900	-	1,000,900
State entitlement					713,035	-	713,035
Grants and local option taxes not restricted to specific programs					24,438	-	24,438
Montana Oil and gas production taxes					2,238,176	-	2,238,176
Local option taxes					216,038	-	216,038
Total general revenues, special items and transfers					\$ <u>6,574,107</u>	\$ <u>2,429</u>	\$ <u>6,576,536</u>
Change in net position					\$ <u>436,184</u>	\$ <u>(26,042)</u>	\$ <u>410,142</u>
Net position - beginning					\$ 17,271,771	\$ 273,411	\$ 17,545,182
Restatements					810,000	-	810,000
Net position - beginning - restated					\$ <u>18,081,771</u>	\$ <u>273,411</u>	\$ <u>18,355,182</u>
Net position - end					\$ <u>18,517,955</u>	\$ <u>247,369</u>	\$ <u>18,765,324</u>

See accompanying Notes to the Financial Statements

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

	<b>General</b>	<b>Road</b>	<b>Public Safety</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 4,568,758	\$ 1,814,839	\$ 351,198	\$ 4,314,502	\$ 11,049,297
Taxes and assessments receivable, net	25,741	19,951	6,362	21,496	73,550
Accounts receivable - net	1,912	2,092	-	5,861	9,865
Contracts receivable	115,000	-	-	-	115,000
Due from other funds	1,567	-	-	-	1,567
Due from other governments	8,888	14,556	-	19,926	43,370
Inventories	7,944	1,172,846	-	31,951	1,212,741
Total assets	\$ 4,729,810	\$ 3,024,284	\$ 357,560	\$ 4,393,736	\$ 12,505,390
Current liabilities:					
Accrued payroll	\$ 39,508	\$ 17,755	\$ 12,513	\$ 12,305	\$ 82,081
Due to other funds	-	-	-	1,567	1,567
Revenues collected in advance	100	-	-	-	100
Total liabilities	\$ 39,608	\$ 17,755	\$ 12,513	\$ 13,872	\$ 83,748
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources	\$ 25,741	\$ 19,951	\$ 6,362	\$ 21,496	\$ 73,550
<b>FUND BALANCES</b>					
Nonspendable	\$ 7,944	\$ 1,172,846	\$ -	\$ 33,951	\$ 1,214,741
Restricted	-	1,813,732	338,685	2,738,328	4,890,745
Committed	-	-	-	1,586,089	1,586,089
Unassigned fund balance	4,656,517	-	-	-	4,656,517
Total fund balance	\$ 4,664,461	\$ 2,986,578	\$ 338,685	\$ 4,358,368	\$ 12,348,092

See accompanying Notes to the Financial Statements

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

<b>Total fund balances - governmental funds</b>	\$	12,348,092
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,424,910
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		73,550
An internal service fund is used by management to charge the costs of providing services within the government. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets		492,187
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(820,784)
<b>Total net position - governmental activities</b>	\$	<u><u>18,517,955</u></u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 1,108,985	\$ 619,231	\$ 186,276	\$ 631,547	\$ 2,546,039
Licenses and permits	2,050	1,540	2,470	-	6,060
Intergovernmental	1,184,043	1,151,841	270,975	1,114,791	3,721,650
Charges for services	163,693	44,720	210,082	252,359	670,854
Fines and forfeitures	34,307	-	-	145	34,452
Miscellaneous	34,460	-	97	1,757	36,314
Investment earnings	458,335	427,380	(1,776)	12,046	895,985
Total revenues	<u>\$ 2,985,873</u>	<u>\$ 2,244,712</u>	<u>\$ 668,124</u>	<u>\$ 2,012,645</u>	<u>\$ 7,911,354</u>
<b>EXPENDITURES</b>					
General government	\$ 1,704,410	\$ -	\$ -	\$ 265,730	\$ 1,970,140
Public safety	428,296	-	816,277	50,841	1,295,414
Public works	-	1,375,200	-	827,404	2,202,604
Public health	132,560	-	-	148,205	280,765
Social and economic services	7,053	-	-	404,157	411,210
Culture and recreation	137,093	-	-	364,312	501,405
Housing and community development	-	-	-	1,650	1,650
Conservation of natural resources	-	-	-	2,889	2,889
Capital outlay	29,645	516,294	54,911	77,930	678,780
Total expenditures	<u>\$ 2,439,057</u>	<u>\$ 1,891,494</u>	<u>\$ 871,188</u>	<u>\$ 2,143,118</u>	<u>\$ 7,344,857</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 546,816</u>	<u>\$ 353,218</u>	<u>\$ (203,064)</u>	<u>\$ (130,473)</u>	<u>\$ 566,497</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 274,853	\$ 274,853
Transfers out	(117,248)	(50,000)	-	(107,605)	(274,853)
Total other financing sources (uses)	<u>\$ (117,248)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ 167,248</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ 429,568</u>	<u>\$ 303,218</u>	<u>\$ (203,064)</u>	<u>\$ 36,775</u>	<u>\$ 566,497</u>
Fund balances - beginning	\$ 1,966,569	\$ 1,873,360	\$ 541,749	\$ 6,589,917	\$ 10,971,595
Restatements	2,268,324	810,000	-	(2,268,324)	810,000
Fund balances - beginning, restated	<u>\$ 4,234,893</u>	<u>\$ 2,683,360</u>	<u>\$ 541,749</u>	<u>\$ 4,321,593</u>	<u>\$ 11,781,595</u>
Fund balance - ending	<u>\$ 4,664,461</u>	<u>\$ 2,986,578</u>	<u>\$ 338,685</u>	<u>\$ 4,358,368</u>	<u>\$ 12,348,092</u>

See accompanying Notes to the Financial Statements

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

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

<b>Net change in fund balances - total governmental funds</b>	\$ 566,497
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
- Capital assets purchased	678,780
- Depreciation expense	(783,665)
In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:	
-Loss on disposal of capital assets	(5,560)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	16,373
The change in compensated absences is shown as an expense in the Statement of Activities	
	(19,251)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Post-employment benefits other than retirement liability	(175,803)
Internal service funds are used by management to share the costs of certain activities, to individual funds. The net revenue of the internal service funds is reported with the governmental activities of the Government-Wide Statement of Activities net of the amounts allocated to business-type activities and depreciation expense.	
	158,813
<b>Change in net position - Statement of Activities</b>	<b>\$ <u>436,184</u></b>

See accompanying Notes to the Financial Statements

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

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities</b>
	<b>Landfill</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 421,792	\$ 519,041
Special assessments receivable	11,075	-
Total current assets	\$ 432,867	\$ 519,041
Noncurrent assets:		
Restricted cash and investments	\$ 224,967	\$ -
Capital assets - land	18,428	-
Intangible assets non-depreciable	102,444	-
Total noncurrent assets	\$ 345,839	\$ -
Total assets	\$ 778,706	\$ 519,041
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ -	\$ 26,854
Accrued payroll	4,398	-
Current portion of compensated absences payable	6,152	-
Total current liabilities	\$ 10,550	\$ 26,854
Noncurrent liabilities:		
Landfill closure postclosure liability	\$ 484,207	\$ -
Noncurrent portion of long-term liabilities - OPEB	35,213	-
Noncurrent portion of compensated absences	1,367	-
Total noncurrent liabilities	\$ 520,787	\$ -
Total liabilities	\$ 531,337	\$ 26,854
<b>NET POSITION</b>		
Net investment in capital assets	\$ 120,872	\$ -
Restricted for debt service	224,967	-
Unrestricted	(98,470)	492,187
Total net position	\$ 247,369	\$ 492,187
Total liabilities and net position	\$ 778,706	\$ 519,041

See accompanying Notes to the Financial Statements

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

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Landfill</u>	<u>Internal Service Funds</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 130,581	\$ 879,964
Miscellaneous revenues	57	-
Special assessments	189,400	-
Total operating revenues	<u>\$ 320,038</u>	<u>\$ 879,964</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$ 185,840	\$ -
Supplies	67,149	-
Purchased services	44,430	721,415
Fixed charges	21,127	-
Depreciation	29,962	-
Total operating expenses	<u>\$ 348,508</u>	<u>\$ 721,415</u>
Operating income (loss)	<u>\$ (28,470)</u>	<u>\$ 158,549</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Taxes/assessments revenue	\$ 714	\$ -
Interest revenue	1,714	264
Total non-operating revenues (expenses)	<u>\$ 2,428</u>	<u>\$ 264</u>
Change in net position	<u>\$ (26,042)</u>	<u>\$ 158,813</u>
Net Position - Beginning of the year	\$ 273,411	\$ 333,374
Net Position - End of the year	<u><u>\$ 247,369</u></u>	<u><u>\$ 492,187</u></u>

See accompanying Notes to the Financial Statements

**Sheridan County, Montana**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Fiscal Year Ended June 30, 2014**

	<b>Business - Enterprise Fund:</b>	<b>Governmental Activities</b>
	<b>SWD Landfill</b>	<b>Internal Service</b>
<b>Cash flows from operating activities:</b>		
Cash received from providing services	\$ 130,581	\$ 879,964
Cash received from special assessments	189,400	-
Cash received from miscellaneous sources	57	-
Cash payments to suppliers	(88,276)	-
Cash payments for professional services	(44,430)	(721,415)
Cash payments to employees	(171,397)	-
Net cash provided (used) by operating activities	\$ 15,935	\$ 158,549
 <b>Cash flows from capital and related financing activities:</b>		
Additions to closure/postclosure liability	\$ 20,398	\$ -
 <b>Cash flows from non-capital financing activities:</b>		
Tax levies and contributions from the County	\$ (796)	\$ -
 <b>Cash flows from investing activities:</b>		
Interest on investments	\$ 1,714	\$ 264
 <b>Net increase (decrease) in cash and cash equivalents</b>	\$ 37,251	\$ 158,813
 <b>Cash and cash equivalents at beginning</b>	\$ 609,508	\$ 360,228
<b>Cash and cash equivalents at end</b>	\$ 646,759	\$ 519,041
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (28,470)	\$ 158,549
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	29,962	-
Other post-employment benefits	9,253	-
Changes in assets and liabilities:		
Increase in compensated absences liability	3,344	-
Increase in accrued wages payable	1,846	-
Net cash provided (used) by operating activities	\$ 15,935	\$ 158,549

See accompanying notes to the financial statements

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

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 11,197,300	\$ 2,820	\$ 749,359
Taxes receivable	-	-	123,043
Total assets	<u>\$ 11,197,300</u>	<u>\$ 2,820</u>	<u>\$ 872,402</u>
<b>LIABILITIES</b>			
Warrants payable	\$ -	\$ -	\$ 496,431
Accounts payable	-	-	94,007
Due to others	-	-	281,964
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872,402</u>
<b>NET POSITION</b>			
Assets held in trust	<u>\$ 11,197,300</u>	<u>\$ 2,820</u>	

See accompanying Notes to the Financial Statements

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

	<b>Investment Trust Funds</b>	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$ 11,492,140	\$ -
Investment earnings:		
Interest and change in fair value of investments	\$ 39,894	\$ 35
Net investment earnings	\$ 39,894	\$ 35
Total additions	\$ 11,532,034	\$ 35
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$ 11,586,540	\$ -
Total deductions	\$ 11,586,540	\$ -
Change in net position	\$ (54,506)	\$ 35
Net Position - Beginning of the year	\$ 11,251,806	\$ 2,785
Net Position - End of the year	\$ 11,197,300	\$ 2,820

See accompanying Notes to the Financial Statements

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources. The County had implemented these provisions in the 2012 fiscal year. As of June 30, 2014, the County applied GASBS 54 to combine the unassigned funds of the Local Option Tax Fund, State Allocated Federal Mineral Royalties Fund, LGST Accelerated Tax Fund, and Oil and Natural Gas Production Tax Fund with the General Fund. The change caused the cash and fund balance of the General Fund to increase and the All Other Aggregate Funds to decrease by \$2,268,324.

**Financial Reporting Entity**

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

*Primary Government*

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

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

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

*Government-wide Financial Statements:*

*Basis of Presentation*

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

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

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

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**Fund Financial Statements:**

*Basis of Presentation*

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

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

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

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

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

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

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

*Major Funds:*

The County reports the following major governmental funds:

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

*Road Fund* – A special revenue fund used to account for road department activity.

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

***Proprietary Funds:***

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

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

*Major Funds:*

The County reports the following major proprietary funds:

*SWD Landfill Fund* – An enterprise fund that accounts for the activities of the County’s landfill services and operations.

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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***Fiduciary Funds***

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

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

*Private-purpose Trust Funds* – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

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

***Internal Service Funds***

Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies for the government on a cost-reimbursement basis. The County maintains one internal service fund relating to self-insurance fund activity.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

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

		<u>Primary Government</u>
<u>Cash on hand and deposits:</u>		
Cash on hand	\$	1,500
Petty Cash		800
Cash in banks:		
Demand deposits		30,614
Savings deposits		574,100
Time deposits		14,826,798
<u>Investments:</u>		
State Short-Term Investment Pool (STIP)		6,564,603
U.S. Treasury Bills		212,405
Repurchase agreements		1,953,756
Total	\$	<u><u>24,164,576</u></u>

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**Repurchase Agreements**

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

**Credit Risk**

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

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

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

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

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

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

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

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

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

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

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *

“\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

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

**Custodial Credit Risk**

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

<u>Depository Account</u>	<u>June 30, 2014 Balance</u>
Insured	\$ 1,042,932
- Collateral held by the pledging bank's trust department but not in the County's name.	14,378,320
Uninsured and uncollateralized deposits	53,107
Total deposits and investments	<u>\$ 15,474,359</u>

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Deposit Security

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

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

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

**Concentration of Credit Risk**

The government places no limit on the amount the entity may invest in any one issuer. The government's concentration of credit risk percentages follow for each investment issued that is not issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments:

	<u>% of credit risk</u>
Repurchase agreements	8%

**Interest Rate Risk**

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

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Goldman SACHS treasury	0.000%	N/A	\$ 6,208
US Treasury Note	4.250%	8/15/2014	40,206
US Treasury Note	4.250%	8/15/2015	5,229
US Treasury Note	1.500%	8/31/2018	8,042
US Treasury Note	1.000%	9/30/2016	35,339
US Treasury Note	0.750%	6/30/2017	9,959
Goldman SACHS treasury	0.000%	N/A	26,828
US Treasury Note	4.250%	8/15/2014	40,206
US Treasury Note	1.000%	9/30/2016	40,388
Repo Account	N/A	N/A	1,953,756
STIP	0.114%	N/A	<u>6,564,603</u>
Total			<u>\$ 8,730,764</u>

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**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments."

**Investment in the Treasurer's Pools**

The County Treasurer invests on behalf of most funds of the County and external participants in accordance with the County's investment policy and Montana law. The County's pools are managed by the County Treasurer. The external portion of the County's investment pools are accounted for as investment trust funds. There are two types of investment trust funds reported by the County, pooled and individually directed investment trust funds.

The County has one pooled investment trust fund, it is invested in repurchase agreements, certificates of deposit, savings deposits, money market accounts, and the State Short-term Investment Pool (STIP). The pooled funds invested in STIP are carried at fair value, and the pooled funds invested in non-negotiable certificates of deposit, savings deposits, money market accounts, and repurchase agreements are carried at cost, which approximates fair value.

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

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

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

**Investment Income**

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

**Condensed statements of investments pools**

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

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**Statement of Net Assets**

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 11,712,133
Equity of external pool participants	11,197,300
Total equity	\$ 22,909,433

**Condensed Statement of Changes in Net Assets**

	External	Internal
Investment earnings	\$ 39,894	\$ 44,240
Contributions to trust	11,492,140	12,744,026
Distributions paid	(11,586,540)	(12,848,710)
Net change in net assets	\$ (54,506)	\$ (60,444)
Net assets at beginning of year	11,251,806	11,772,577
Net assets at end of year	\$ 11,197,300	\$ 11,712,133

**Cash equivalents**

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

**NOTE 3. RESTRICTED CASH/INVESTMENTS**

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

Description	Amount
Landfill Closure/Post Closure Liabilities	\$ <u>224,967</u>

**NOTE 4. RECEIVABLES**

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

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

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

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

**NOTE 5. INVENTORIES AND PREPAIDS**

The cost of inventories are recorded as an expenditure when consumed. At year end, significant inventories on hand are recorded as an asset. The First In, First Out (FIFO) inventory method is used.

<u>Major Fund</u>	<u>Amount</u>
General	\$ 7,944
Road	1,172,846
All Other Aggregate	<u>31,951</u>
Total Inventories	<u>\$1,212,741</u>

**NOTE 6. CAPITAL ASSETS**

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

Buildings	28 years
Buildings and improvements	7 – 25 years
Vehicles and heavy equipment	4 – 15 years
Machinery and equipment	4 – 15 years
Intangibles	2 years
Infrastructure	10 – 50 years

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A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance				Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 100,355	\$ -	\$ -	\$ -	\$ 100,355
Construction in progress	203,991	9,202	-	(201,592)	11,601
Intangible assets - nondepreciable	34,000	-	-	-	34,000
Total capital assets not being depreciated	<u>\$ 338,346</u>	<u>\$ 9,202</u>	<u>\$ -</u>	<u>\$ (201,592)</u>	<u>\$ 145,956</u>
Other capital assets:					
Buildings	\$ 3,904,211	\$ 92,212	\$ -	\$ 116,703	\$ 4,113,126
Improvements other than buildings	2,986,778	-	-	-	2,986,778
Machinery and equipment	6,045,768	553,586	(35,690)	-	6,563,664
Infrastructure	1,612,159	23,780	-	84,889	1,720,828
Intangible assets - depreciable	115,160	-	-	-	115,160
Total other capital assets at historical cost	<u>\$ 14,664,076</u>	<u>\$ 669,578</u>	<u>\$ (35,690)</u>	<u>\$ 201,592</u>	<u>\$ 15,499,556</u>
Less: accumulated depreciation	<u>\$ (8,467,067)</u>	<u>\$ (783,665)</u>	<u>\$ 30,130</u>	<u>\$ -</u>	<u>\$ (9,220,602)</u>
Total	<u><u>\$ 6,535,355</u></u>	<u><u>\$ (104,885)</u></u>	<u><u>\$ (5,560)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,424,910</u></u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 81,358
Public safety	104,475
Public works	559,068
Culture and recreation	35,236
Housing and community development	<u>3,528</u>
Total governmental activities depreciation expense	<u>\$ 783,665</u>

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

Business-type activities:

	Balance		Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:			
Land	\$ 18,428	\$ -	\$ 18,428
Other capital assets:			
Buildings	\$ 13,892	\$ -	\$ 13,892
Improvements other than buildings	86,952	-	86,952
Machinery and equipment	410,814	-	410,814
Total other capital assets at historical cost	<u>\$ 511,658</u>	<u>\$ -</u>	<u>\$ 511,658</u>
Less: accumulated depreciation	<u>\$ (379,252)</u>	<u>\$ (29,962)</u>	<u>\$ (409,214)</u>
Total	<u><u>\$ 150,834</u></u>	<u><u>\$ (29,962)</u></u>	<u><u>\$ 120,872</u></u>

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**NOTE 7. LONG TERM DEBT OBLIGATIONS**

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

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

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

Governmental Activities:

	Balance		Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Compensated absences	\$ 268,076	\$ 19,251	\$ 287,327	\$ 195,011
Other post-employment benefits*	357,654	175,803	533,457	-
Total	<u>\$ 625,730</u>	<u>\$ 195,054</u>	<u>\$ 820,784</u>	<u>\$ 195,011</u>

\*See Note 8

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

Business-type Activities:

	Balance		Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Compensated absences	\$ 4,175	\$ 3,344	\$ 7,519	\$ 6,152
Landfill Closure/Postclosure **	463,809	20,398	484,207	-
Other post-employment benefits*	25,960	9,253	35,213	-
Total	<u>\$ 493,944</u>	<u>\$ 32,995</u>	<u>\$ 526,939</u>	<u>\$ 6,152</u>

\*See Note 8

\*\* See Note 9

SHERIDAN COUNTY, MONTANA  
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**Compensated Absences**

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

**NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

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

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	1,274,409
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	1,274,409
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,614,712
UAAL as a percentage of covered payroll		78.92%

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

Annual Required Contribution (ARC)	\$	185,056
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	185,056
Contributions made	\$	-
Increase in net OPEB obligation	\$	185,056
Net OPEB obligation - beginning of year	\$	383,614
Net OPEB obligation - end of year	\$	568,680

*Actuarial Methods and Assumptions.* The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	1.00%
Average salary increase (Consumer Price Index)	2.00%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

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**NOTE 9. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that County place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and postclosure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$484,207 reported as landfill closure and postclosure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 57.86% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$352,716 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure in 2014. The estimated life of the Landfill as of March 2014 was 60 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

**NOTE 10. INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Purpose</u>	Due to/from other funds:		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
To cover negative cash balance	General – Major Governmental	WIC – Nonmajor Governmental	\$ 83
To cover negative cash balance	General – Major Governmental	Immunization – Nonmajor Governmental	1,484
			<u>\$ 1,567</u>

**Interfund Transfers**

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

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<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budgeted transfer	General Capital Improvement – Nonmajor Governmental	General – Major Governmental	\$ 55,000
Budgeted transfer	MCH Mathc/MCH Grant – Nonmajor Governmental	General – Major Governmental	2,248
Budgeted transfer	DES Capital Improvement – Nonmajor Governmental	General – Major Governmental	20,000
Budgeted transfer	Museum Capital Improvement – Nonmajor Governmental	General – Major Governmental	40,000
Budgeted transfer	Road Depreciation Reserve – Nonmajor Governmental	Road – Major Governmental	50,000
Budgeted transfer	Bridge Depreciation Reserve – Nonmajor Governmental	Bridge – Nonmajor Governmental	50,000
Budgeted transfer	Weed Capital Improvement – Nonmajor Governmental	Weed – Nonmajor Governmental	10,000
Budgeted transfer	Fair Capital Improvement – Nonmajor Governmental	Fair – Nonmajor Governmental	12,500
Budgeted transfer	Sherwood Airport – Nonmajor Governmental	City-County Airport – Nonmajor Governmental	12,000
Budgeted transfer	Airport Reserve – Nonmajor Governmental	Sherwood Airport – Nonmajor Governmental	15,000
Budgeted transfer	Library Reserve – Nonmajor Governmental	Library – Nonmajor Governmental	3,000
To close out the Drug Free Community Support Fund	Delinquency Intervention – Nonmajor Governmental	Drug Free Comm Support – Nonmajor Governmental	107
To close out the Drug Free Community Support Fund	Community Service Fund – Nonmajor Governmental	Drug Free Comm Support – Nonmajor Governmental	237
To close out the Primary Prevention Services Fund	DUI Task Force – Nonmajor Governmental	Primary Prevention Services – Nonmajor Governmental	2,380
To close out the Primary Prevention Services Fund	Community Service Fund – Nonmajor Governmental	Primary Prevention Services – Nonmajor Governmental	<u>2,381</u>
			<u>\$ 274,853</u>

**NOTE 11. STATE-WIDE RETIREMENT PLANS**

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

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

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

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

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

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

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling: Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

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

	<u>PERS</u>	<u>SRS</u>
2012	\$ 161,788	\$ 34,339
2013	\$ 170,636	\$ 37,672
2014	\$ 199,193	\$ 40,436

**NOTE 12. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

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

**NOTE 13. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

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

**Nonspendable Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
General	\$ 7,944	Inventories
Road	1,172,846	Inventories
All other aggregate:		
	31,951	Public works
	<u>2,000</u>	Permanent fund principle
	<u>\$ 1,214,741</u>	

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 1,813,732	Public works
Public Safety	338,685	Public safety
All other aggregate:		
	425,137	General government
	881,547	Public safety
	852,698	Public works
	117,605	Public health
	240,255	Social and economic services
	<u>221,086</u>	Culture and recreation
	<u>\$ 4,890,745</u>	

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
All other aggregate:	\$ 243,423	General government
	372,327	Culture and recreation
	<u>970,339</u>	Public works
	<u>\$ 1,586,089</u>	

**NOTE 14. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Road	\$ 810,000	Record prior year gravel inventories at cost
General	2,268,324	Combining funds per GASB 54 – beginning fund balance
All Other Aggregate	<u>(2,268,324)</u>	Combining funds per GASB 54 – beginning fund balance
Total	<u>\$ 810,000</u>	

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 15. RELATED PARTY TRANSACTIONS**

During fiscal year ended June 30, 2014 the County paid \$6,499 to Plentywood Electric for services provided by the County. Plentywood Electric is owned by one of the County Commissioners.

**NOTE 16. LEASING ARRANGEMENTS**

The County has entered into a land operating lease with lessee, Chad Olson. The operating lease is for 350 acres of farm land paid annually in the amount of \$13,213. The current lease terms expire December 31, 2018. The County has also entered into an operating lease with Montana Department of Revenue (DOR) for office space in the Courthouse. For fiscal year 2014, the DOR, per the lease agreement, made monthly lease payments in the amount of \$919.31 beginning July 1, 2013 and the lease expiring on June 30, 2014.

**NOTE 17. JOINT VENTURES**

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

**City-County Airport**

The City-County Airport is owned and operated by Sheridan County and the City of Plentywood. The operation of the City-County Airport is accounted for by Sheridan County within a special revenue fund and capital assets are accounted for by the County. Revenues are provided through operating income from the City-County Airport and by equal contributions from the City of Plentywood and Sheridan County. The City-County Airport is administered by a five-member board comprised of two members appointed by the Plentywood City Council, two members appointed by the County Commissioners, and one member appointed by the other four City-County Airport board members. Airport board members are appointed every two years. The original budget is approved by the controlling governments, with the City budgeting for its share within its budget, and the County including the entire operation within its budget. The controlling governments do not exercise specific control over the airport operations.

Airport revenues were derived from tax levies by the City of Plentywood, by user fees, and fuel sales.

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**City-County Park and Recreational Area**

The City-County Park and Recreational Area (Sher-Wood Park) is owned and operated jointly by Sheridan County and the City of Plentywood. The operation of the Sher-Wood Park is accounted for by the City of Plentywood within a special revenue fund. All capital assets of Sher-Wood Park are included with the City's capital assets. The operating revenues are being provided 50% by the City of Plentywood and 50% by Sheridan County. This percentage is per written agreement. Sher-Wood Park is administered by a five-member board, comprised of two members appointed by the City Council, two members appointed by the County Commissioners, and one member appointed by the other four Sher-Wood Park board members. Board members are appointed every two years. The original budget is approved by the controlling governments, with the County budgeting for its share within its General Fund budget, and the City including the entire operation in its Special Revenue Fund budget.

**Town-County Sheridan Lake Park-Pool**

The Town-County Sheridan Lake Park-Pool is owned and operated jointly by Sheridan County and the Town of Medicine Lake. The operation of the Park-Pool is accounted for by the Town of Medicine Lake within its special revenue fund. All capital assets of the Park-Pool are included with the Town's capital assets. The operating revenues are being provided 50% by the Town of Medicine Lake and 50% by Sheridan County. This percentage is per written agreement. The Sheridan Lake Park-Pool is administered by a five-member board comprised of two members appointed by the Town Council, two members appointed by the County Commissioners and one member appointed by the other four Sheridan Lake Park-Pool board members. Board members are appointed every two years. The original budget is approved by the controlling governments, with the County budgeting for its share within its General Fund budget, and the Town including the entire operation in its Special Revenue Fund budget.

**Rest Area Facilities**

The County and the City of Plentywood share an interest in a rest stop facility, situated on Highway 5 and 16, east of Plentywood, Montana. The County and City of Plentywood entered into an agreement whereby the County retains title to the real property, and the City shall furnish water and sewer hookup and service to the rest area and shall be responsible for any and all costs associated. The planning, organization, direction, supervision, operation, and management shall be as determined by a committee whose membership shall consist of two representatives of the County Board of Commissioners and two representatives of the City Council. Representatives are appointed by their respective governing bodies. The City and County shall each be responsible for the payment of 50% of all costs associated with the maintenance and operation of the rest area. The County budgets for all of the costs associated with the maintenance and operation of the rest area within the Road Fund, a special revenue fund.

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**General Law Enforcement Services**

An interlocal agreement was entered into between Sheridan County and the City of Plentywood, effective January 1, 2008. Sheridan County is to provide general law enforcement services for the City of Plentywood, which includes a centralized dispatch service for calls to the Plentywood Fire Department, Plentywood Public Works Department and work crew, and the Plentywood Dog Catcher or Animal Control Personnel. During 2014, the County received \$172,320 from the City for providing law enforcement services.

**NOTE 18. SERVICES PROVIDED TO OTHER GOVERNMENTS**

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

**NOTE 19. RISK MANAGEMENT**

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

Insurance Policies:

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

Insurance Pools:

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

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

SHERIDAN COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

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

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

Self Insurance

The County provides medical insurance coverage for its employees via a partially self-insured plan administered by EBMS Inc. It provides medical and dental benefits and is operated as an Internal Service Fund. Rates are determined in consultation with the administrator based on past claim experience. The rates include a premium for a commercial "stop-loss" policy for when claims, in total, exceed \$5,000,000. A reconciliation of claims payable follows:

Claims payable, June 30, 2013	\$ 5,439
Claims incurred	742,830
Claims paid	<u>(721,415)</u>
Claims payable, June 30, 2014	<u>\$ 26,854</u>

**REQUIRED SUPPLEMENTAL  
INFORMATION**

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

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 932,341	\$ 932,341	\$ 1,108,985	\$ 176,644
Licenses and permits	1,525	1,525	2,050	525
Intergovernmental	737,750	737,750	978,290	240,540
Charges for services	107,300	107,300	163,693	56,393
Fines and forfeitures	18,295	18,295	34,307	16,012
Miscellaneous	21,500	21,500	34,460	12,960
Investment earnings	265,000	265,000	452,018	187,018
Amounts available for appropriation	<u>\$ 2,083,711</u>	<u>\$ 2,083,711</u>	<u>\$ 2,773,803</u>	<u>\$ 690,092</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 1,902,332	\$ 1,902,332	\$ 1,704,410	\$ 197,922
Public safety	448,040	448,040	428,296	19,744
Public works	-	-	-	-
Public health	156,621	156,621	132,560	24,061
Social and economic services	16,800	16,800	7,053	9,747
Culture and recreation	147,313	147,313	137,093	10,220
Housing and community development	3,000	3,000	-	3,000
Miscellaneous	10,000	10,000	-	10,000
Capital outlay	171,800	171,800	29,645	142,155
Total charges to appropriations	<u>\$ 2,855,906</u>	<u>\$ 2,855,906</u>	<u>\$ 2,439,057</u>	<u>\$ 416,849</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>\$ (167,250)</u>	<u>\$ (167,250)</u>	<u>\$ (117,248)</u>	<u>\$ 50,002</u>
Net change in fund balance			<u>\$ 217,498</u>	
Fund balance - beginning of the year			\$ 2,715,902	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 2,715,902</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 2,933,400</u></u>	

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

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 648,181	\$ 648,181	\$ 619,231	\$ (28,950)
Licenses and permits	350	350	1,540	1,190
Intergovernmental	922,555	922,555	1,151,841	229,286
Charges for services	18,000	18,000	44,720	26,720
Fines and forfeitures	-	-	-	-
Miscellaneous	900	900	-	(900)
Investment earnings	190,000	190,000	427,380	237,380
Amounts available for appropriation	<u>\$ 1,779,986</u>	<u>\$ 1,779,986</u>	<u>\$ 2,244,712</u>	<u>\$ 464,726</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	2,122,999	2,122,999	1,375,200	747,799
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	512,000	512,000	516,294	(4,294)
Total charges to appropriations	<u>\$ 2,634,999</u>	<u>\$ 2,634,999</u>	<u>\$ 1,891,494</u>	<u>\$ 743,505</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 303,218</u>	
Fund balance - beginning of the year			\$ 1,873,360	
Restatements			<u>810,000</u>	
Fund balance - beginning of the year - restated			<u>\$ 2,683,360</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 2,986,578</u></u>	

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

<b>Public Safety</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 189,471	\$ 189,471	\$ 186,276	\$ (3,195)
Licenses and permits	2,000	2,000	2,470	470
Intergovernmental	245,475	245,475	270,975	25,500
Charges for services	175,500	175,500	210,082	34,582
Fines and forfeitures	-	-	-	-
Miscellaneous	50	50	97	47
Investment earnings	-	-	(1,776)	(1,776)
Amounts available for appropriation	\$ 612,496	\$ 612,496	\$ 668,124	\$ 55,628
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	829,742	829,742	816,277	13,465
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	41,500	41,500	54,911	(13,411)
Total charges to appropriations	\$ 871,242	\$ 871,242	\$ 871,188	\$ 54
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ (203,064)	
Fund balance - beginning of the year			\$ 541,749	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 541,749	
<b>Fund balance - end of the year</b>			\$ 338,685	

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

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,773,803	\$ 2,244,712	\$ 668,124
Combined funds (GASBS 54) revenues	212,070	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,985,873</u>	<u>\$ 2,244,712</u>	<u>\$ 668,124</u>
<b>Uses/Outflows of resources</b>			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,439,057	\$ 1,891,494	\$ 871,188
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,439,057</u>	<u>\$ 1,891,494</u>	<u>\$ 871,188</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Actuarial Accrued Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	\$ -	\$ 1,274,409	\$ 1,274,409	0%	\$1,614,712	78.9%

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

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

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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***

Board of County Commissioners  
Sheridan County  
Plentywood, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sheridan County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Sheridan County's basic financial statements 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 Sheridan County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sheridan County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Sheridan County's internal control over financial reporting.

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

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

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 did identify certain deficiencies in internal control, described below that we consider significant deficiencies listed as items 2014-002 and 2014-003.

**2014-001      Tracking Gravel Inventory**

**Condition:**

The County accounts for supply inventories using the purchase method. Under this method the County is required to report unused supplies as inventory rather than expenditures. The County does not have a system in place to track the gravel inventories held by the road fund and has significant stockpiles throughout the County with an estimated cost of \$1,056,510 that should be recorded as inventories.

**Context:**

When testing the claims, the auditor noted significant gravel purchases during 2014. Using inquiry and documentation, we found that the County wasn't tracking the gravel supplies and had 8 large stockpiles in the County as of June 30, 2014.

**Criteria:**

An adequate internal control system requires that the County track the significant gravel supplies inventories through out the year perform an inventory count at year end to properly identify and record the significant inventories at June 30, 2014.

**Effect:**

The County had unrecorded gravel inventories totaling \$1,136,910 at June 30, 2014. The financial statements are fairly stated because they have been updated to reflect the gravel inventory above.

**Cause:**

The County currently doesn't have adequate internal controls or procedures in place to track the gravel inventories as they are purchased and the amounts remaining at the end of the year.

**Recommendation:**

We recommend the County implement a tracking system to account for the gravel used and unused during the year, and perform inventory counts at least annually to properly record the inventories.

**Auditee Response:**

The County plans to implement a system for tracking the gravel inventory, and will perform a yearly inventory count so the Clerk and Recorder can adjust the inventory balance at the fiscal year end.

**2014-002      Treasurer Daily Balance – Repeated from 2013**

**Condition:**

The Treasurer's office balances the total daily collections to the total daily reports from the three cash receipting systems used by the County. The cash receipting systems break down collections by type of payments (cash, credit and check). While the total collections agree with the total receipts cash, checks and credit cards are not balanced separately. This is a repeat comment from Fiscal year 2013.

**Context:**

The auditor performed a review of the internal controls in the Treasurer's office by inquiry, observation, and documentation.

**Criteria:**

The Treasurer's office handles all the cash receipts for the County. A better balancing system would balance cash and checks to separately to ensure no one substitutes an unreported check and removes cash prior to the deposit at the bank.

**Effect:**

Controls could be improved over the cash receipting process.

**Cause:**

The County has not implemented a policy or procedure separating the types of payments.

**Recommendation:**

We recommend the County Treasurer balance cash and checks separately.

**Auditee Response:**

The County Treasurer will begin random testing of cash balancing.

**2014-003      Fair Internal Controls****Condition:**

The following control weaknesses were noted when reviewing the operating controls of the Fair.

- (1) Being a small office the Fair activities are handle by one individual and no receipts are used for sponsor donations or presales.
- (2) The revenues and expenditures are not being recorded as separate transactions in the accounting system, instead are being recorded as net amount. Also, a monthly reconciliation of the subsidiary spreadsheet to the bank statements is not being performed.

**Context:**

The auditor completed an internal review of the Fair using inquiry, review of supporting documentation, and observation.

**Criteria:**

- (1) An adequate internal system requires segregation of duties in custody, recording, and reconciling of transactions and accounts. Also, a pre-numbered system, such as receipts, should be used for donations and presales.
- (2) All revenue and expenditures should be recorded when the transactions occur, and perform a monthly reconciliation to ensure all transactions are accounted for and prevent potential errors

**Effect:**

The effect of the factors listed above constitutes the risk of misappropriation of assets and inaccurate accounting records.

**Cause:**

This is a small office with limited staff to properly segregate the duties.

**Recommendation:**

We recommend the following changes to Sheridan County's fair:

- (1) Segregate the duties of custody, recording, and reconciliations to the fullest extent possible. Use pre-numbered system, such as receipts, when receiving revenues for by sponsor and pre-ticket sales. Attach supporting documents, such as wristband counts, to gate sale revenues.
- (2) Provide detailed documentation for revenues and expenditures to the County Treasurer when disbursing the Fair funds to the County and perform a monthly reconciliations of the bank statements to the spreadsheets kept by the Clerk.

**Auditee Response:**

The Fair Clerk plans to implement checks and balances where she can, and provide all supporting documents to be recorded into the Black Mountain System. Also, the Clerk plans to implement a receipting process for revenues and reconcile the bank statements on a monthly basis during the fair.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sheridan 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*.

**Sheridan County's Response to Findings**

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

**Purpose of this Report**

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

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

June 22, 2015

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Sheridan County  
Plentywood, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Treasurer Daily Cash Balancing	Repeated
Exceeded Cash Reserve Limits	Implemented
District Court Cash Balancing	Implemented

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

June 22, 2015