

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**HILL COUNTY, MONTANA**

**FINANCIAL REPORT**

**June 30, 2014**



C O N T E N T S

	<u>PAGE</u>
ORGANIZATION .....	1
INDEPENDENT AUDITOR’S REPORT .....	2 to 4
FINANCIAL STATEMENTS	
<u>Government-wide Financial Statements</u>	
Statement of Net Position .....	5
Statement of Activities.....	6
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds .....	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	10
Balance Sheet – Proprietary Funds.....	11
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds .....	12
Statement of Cash Flows – Proprietary Funds.....	13
Fiduciary Funds – Statement of Fiduciary Net Position.....	14
Fiduciary Funds – Statement of Changes in Fiduciary Net Position .....	15
Notes to Financial Statements.....	16 to 42
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule.....	43 and 44
Schedule of Funding Progress for OPEB Obligations.....	45
SINGLE AUDIT SECTION	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	46 and 47
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	48 through 50
Schedule of Findings and Questioned Costs.....	51 through 54
Schedule of Prior Audit Findings .....	55 through 57
Schedule of Expenditures of Federal Awards.....	58 through 60
Note to Schedule of Expenditures of Federal Awards .....	61

# HILL COUNTY, MONTANA

## ORGANIZATION

June 30, 2014

### Board of County Commissioners

Mike Wendland ..... Chairperson  
Mark Peterson.....Commissioner  
Jeff LaVoi.....Commissioner

### County Officials

Gina Dahl..... County Attorney  
Sandy Brown .....Treasurer  
Susan Armstrong .....Clerk and Recorder  
Kathy Olson..... Auditor  
Kathie Vigliotti.....Clerk of District Court  
Audrey Barger ..... Justice of the Peace  
Diane McLean .....School Superintendent  
Don Brostrom ..... Sheriff

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Hill County  
Havre, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hill 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 of 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 activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hill County, Montana, as of 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and schedule of funding for other postemployment benefits other than pensions on pages 43 and 44, and 45 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.

Hill County, Montana has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2015, on our consideration of the Hill 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 Hill County, Montana's internal control over financial reporting and compliance.



Havre, Montana  
May 18, 2015

FINANCIAL STATEMENTS

HILL COUNTY, MONTANA  
STATEMENT OF NET POSITION  
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>	<u>Unified Disposal District</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 7,421,472	\$ 204,908	\$ 7,626,380	\$ 628,185
Taxes and assessments receivable, net	312,532	-	312,532	-
Accounts receivable, net	41	-	41	-
Inventory	107,102	-	107,102	-
Due from other funds	524,399	-	524,399	-
Due from other governments	<u>181,208</u>	<u>-</u>	<u>181,208</u>	<u>-</u>
Total current assets	<u>8,546,754</u>	<u>204,908</u>	<u>8,751,662</u>	<u>628,185</u>
<b>NON-CURRENT ASSETS</b>				
Restricted cash and investments	12,240	67,284	79,524	836,227
Capital assets, net	<u>13,652,895</u>	<u>112,026</u>	<u>13,764,921</u>	<u>3,404,266</u>
Total noncurrent assets	<u>13,665,135</u>	<u>179,310</u>	<u>13,844,445</u>	<u>4,240,493</u>
Total assets	<u>\$ 22,211,889</u>	<u>\$ 384,218</u>	<u>\$ 22,596,107</u>	<u>\$ 4,868,678</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 483,359	\$ -	\$ 483,359	\$ -
Due to other funds	524,399	-	524,399	-
Current portion of compensated absences	337,603	-	337,603	9,192
Current portion of long-term debt	<u>324,902</u>	<u>-</u>	<u>324,902</u>	<u>136,452</u>
Total current liabilities	<u>1,670,263</u>	<u>-</u>	<u>1,670,263</u>	<u>145,644</u>
<b>NON-CURRENT LIABILITIES</b>				
Landfill closure and postclosure liability	-	-	-	599,405
Noncurrent portion of compensated absences	121,323	-	121,323	24,462
Noncurrent portion of long-term debt	676,500	-	676,500	742,459
Liability for post-employment benefits	<u>1,160,691</u>	<u>-</u>	<u>1,160,691</u>	<u>85,729</u>
Total noncurrent liabilities	<u>1,958,514</u>	<u>-</u>	<u>1,958,514</u>	<u>1,452,055</u>
Total liabilities	<u>3,628,777</u>	<u>-</u>	<u>3,628,777</u>	<u>1,597,699</u>
<b>NET POSITION</b>				
Net investment in capital assets	13,652,895	112,026	13,764,921	3,404,266
Restricted for capital projects	317,561	-	317,561	-
Restricted for debt service	48,819	-	48,819	-
Restricted for special projects	4,664,466	-	4,664,466	-
Landfill closure and postclosure cost	-	-	-	599,405
Unrestricted	<u>(100,629)</u>	<u>272,192</u>	<u>171,563</u>	<u>(732,692)</u>
Total net position	<u>18,583,112</u>	<u>384,218</u>	<u>18,967,330</u>	<u>3,270,979</u>
Total liabilities and net position	<u>\$ 22,211,889</u>	<u>\$ 384,218</u>	<u>\$ 22,596,107</u>	<u>\$ 4,868,678</u>

The Notes to Financial Statements are an integral part of this statement.

**HILL COUNTY, MONTANA**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total	
<b>Primary Government</b>								
<b>Governmental activities</b>								
General government	\$ 2,561,545	\$ 186,185	\$ 192,177	\$ -	\$ (2,183,183)	\$ -	\$ (2,183,183)	\$ -
Public safety	2,111,069	534,689	118,903	-	(1,457,477)	-	(1,457,477)	-
Public works	3,169,655	794,206	303,006	93,678	(1,978,765)	-	(1,978,765)	-
Public health	766,823	71,687	448,814	-	(246,322)	-	(246,322)	-
Social and economic services	510,269	96,508	271,037	10,900	(131,824)	-	(131,824)	-
Culture and recreation	439,733	287,069	295	-	(152,369)	-	(152,369)	-
Housing and community development	36,393	-	-	-	(36,393)	-	(36,393)	-
Conservation of natural resources	3,155	24,925	9,286	-	31,056	-	31,056	-
Debt service - interest	363,854	-	-	-	(363,854)	-	(363,854)	-
Internal services	1,819,296	-	-	-	(1,819,296)	-	(1,819,296)	-
Miscellaneous	58,810	-	-	-	(58,810)	-	(58,810)	-
Total governmental activities	<u>11,840,602</u>	<u>1,995,269</u>	<u>1,343,518</u>	<u>104,578</u>	<u>(8,397,237)</u>	<u>-</u>	<u>(8,397,237)</u>	<u>-</u>
<b>Business-Type activities</b>								
Beaver Creek Irrigation	52,219	17,426	-	-	-	(34,793)	(34,793)	-
Total business-type activities	<u>52,219</u>	<u>17,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,793)</u>	<u>(34,793)</u>	<u>-</u>
Total primary government	<u>\$ 11,892,821</u>	<u>\$ 2,012,695</u>	<u>\$ 1,343,518</u>	<u>\$ 104,578</u>	<u>(8,397,237)</u>	<u>(34,793)</u>	<u>(8,432,030)</u>	<u>-</u>
<b>Component Unit</b>								
Unified Diposal District	<u>924,738</u>	<u>-</u>	<u>1,279,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>355,223</u>
<b>General Revenues</b>								
Property taxes for general purposes					5,534,685	-	5,534,685	-
Local option taxes					388,690	-	388,690	-
Licenses and permits					2,800	-	2,800	-
Unrestricted federal and state shared revenues					1,233,354	-	1,233,354	-
Miscellaneous					688,045	-	688,045	-
Investment earnings					64,616	408	65,024	7,582
Other revenue					158,698	-	158,698	-
Gain (loss) on disposal of assets					-	-	-	-
Total general revenues					<u>8,070,888</u>	<u>408</u>	<u>8,071,296</u>	<u>7,582</u>
Change in net position					<u>(326,349)</u>	<u>(34,385)</u>	<u>(360,734)</u>	<u>362,805</u>
Net position - beginning of year					<u>18,909,461</u>	<u>418,603</u>	<u>19,328,064</u>	<u>2,908,174</u>
Net position - end of year					<u>\$ 18,583,112</u>	<u>\$ 384,218</u>	<u>\$ 18,967,330</u>	<u>\$ 3,270,979</u>

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
BALANCE SHEET  
GOVERNMENT FUNDS  
June 30, 2014

	<u>General</u>	<u>Road</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 2,785,782	\$ 652,429	\$ 3,822,348	\$ 7,260,559
Taxes and assessments receivable, net	109,193	32,702	170,633	312,528
Accounts receivable, net	41	-	-	41
Restricted cash and investments	-	-	12,240	12,240
Inventory	-	107,102	-	107,102
Due from other funds	176,592	6,566	341,241	524,399
Due from other governments	<u>6,050</u>	<u>-</u>	<u>175,158</u>	<u>181,208</u>
Total assets	<u>\$ 3,077,658</u>	<u>\$ 798,799</u>	<u>\$ 4,521,620</u>	<u>\$ 8,398,077</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 265,343	\$ 58,184	\$ -	\$ 323,527
Due to other funds	<u>181,059</u>	<u>-</u>	<u>238,340</u>	<u>419,399</u>
Total liabilities	<u>446,402</u>	<u>58,184</u>	<u>238,340</u>	<u>742,926</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues - taxes and assessments	<u>109,193</u>	<u>39,767</u>	<u>170,633</u>	<u>319,593</u>
<b>FUND BALANCES</b>				
Non-spendable - inventory	-	107,102	-	107,102
Restricted	25,221	534,371	2,346,996	2,906,588
Committed	-	-	641,097	641,097
Assigned	-	59,375	1,124,554	1,183,929
Unassigned	<u>2,496,842</u>	<u>-</u>	<u>-</u>	<u>2,496,842</u>
Total fund balances	<u>2,522,063</u>	<u>700,848</u>	<u>4,112,647</u>	<u>7,335,558</u>
Total liabilities and fund balances	<u>\$ 3,077,658</u>	<u>\$ 798,799</u>	<u>\$ 4,521,620</u>	<u>\$ 8,398,077</u>

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
June 30, 2014

<b>Total Fund Balances - Governmental Funds</b>	\$ 7,335,558
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,652,895
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.	319,593
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 fund is included in governmental activities in the government-wide statement of net assets.	(103,915)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	<u>(2,621,019)</u>
<b>Total net position - governmental activities</b>	<u>\$ 18,583,112</u>

The Notes to Financial Statements are an integral part of this statement.

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

	General	Road	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes and assessments	\$ 2,826,077	\$ 974,467	\$ 2,451,048	\$ 6,251,592
Licenses and permits	1,925	-	875	2,800
Intergovernmental	552,277	55,615	2,081,535	2,689,427
Charges for services	547,886	-	1,021,423	1,569,309
Fines and forfeitures	109,052	-	25,280	134,332
Miscellaneous	19,660	25	406,498	426,183
Investment earnings	46,790	15,395	2,235	64,420
Total revenues	<u>4,103,667</u>	<u>1,045,502</u>	<u>5,988,894</u>	<u>11,138,063</u>
<b>EXPENDITURES</b>				
General government	2,591,329	58,184	279,381	2,928,894
Public safety	1,705,706	-	234,411	1,940,117
Public works	-	1,122,016	1,761,741	2,883,757
Public health	7,155	-	716,226	723,381
Social and economic services	110,080	-	392,755	502,835
Culture and recreation	-	-	497,180	497,180
Housing and community development	-	-	36,393	36,393
Debt service - principal	-	-	315,206	315,206
Debt service - interest	-	-	38,952	38,952
Capital outlay	74,129	52,700	141,105	267,934
Total expenditures	<u>4,488,399</u>	<u>1,232,900</u>	<u>4,413,350</u>	<u>10,134,649</u>
Excess (deficiency) of revenues over expenditures	<u>(384,732)</u>	<u>(187,398)</u>	<u>1,575,544</u>	<u>1,003,414</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	107,793	44,035	111,528	263,356
Transfers out	<u>(37,083)</u>	<u>(43,000)</u>	<u>(1,301,730)</u>	<u>(1,381,813)</u>
Total other financing sources (uses)	<u>70,710</u>	<u>1,035</u>	<u>(1,190,202)</u>	<u>(1,118,457)</u>
Net change in fund balances	<u>(314,022)</u>	<u>(186,363)</u>	<u>385,342</u>	<u>(115,043)</u>
<b>FUND BALANCES</b>				
Beginning of year	2,836,085	887,211	3,727,305	7,450,601
Restatements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning of year, restated	<u>2,836,085</u>	<u>887,211</u>	<u>3,727,305</u>	<u>7,450,601</u>
End of year	<u>\$ 2,522,063</u>	<u>\$ 700,848</u>	<u>\$ 4,112,647</u>	<u>\$ 7,335,558</u>

The Notes to Financial Statements are an integral part of this statement.

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

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

**Net change in fund balances - governmental funds** \$ (115,043)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the lives of the assets.

Capital assets purchased	267,934
Retirement, trade in, donation, etc of Capital Assets	(187,894)
Depreciation	(581,905)

In the statement of activities, the gain or loss on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets.

-

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Donated capital assets	-
Long-term receivables (unearned revenue)	319,593

The change in compensated absences is shown as an expense in the statement of activities.

64,358

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.

315,206

The change in post-employment benefits is shown as an expense in the statement of activities.

(134,695)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported within the governmental activities.

(273,903)

**Change in net position - statement of activities** \$ (326,349)

HILL COUNTY, MONTANA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2014

	<u>Beaver Creek Irrigation</u>	<u>Governmental Activities Internal Service Funds</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 204,908	\$ 160,913
Taxes and assessments receivable, net	<u>-</u>	<u>4</u>
Total current assets	<u>204,908</u>	<u>160,917</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and investments	67,284	-
Capital assets, net	<u>112,026</u>	<u>-</u>
Total non-current assets	<u>179,310</u>	<u>-</u>
Total assets	<u>\$ 384,218</u>	<u>\$ 160,917</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ -	\$ 159,832
Due to other funds	<u>-</u>	<u>105,000</u>
Total current liabilities	<u>-</u>	<u>264,832</u>
<b>NET POSITION</b>		
Net investment in capital assets	112,026	-
Restricted for debt service	-	-
Landfill closure and postclosure cost	-	-
Unrestricted	<u>272,192</u>	<u>(103,915)</u>
Total net position	<u>384,218</u>	<u>(103,915)</u>
Total liabilities and net position	<u>\$ 384,218</u>	<u>\$ 160,917</u>

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2014

	Beaver Creek Irrigation	Governmental Activities Internal Service Funds
	<u>          </u>	<u>          </u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 14,112	\$ -
Intergovernmental revenues	3,314	-
Taxes/Assessments	-	288,536
Self-insurance payments	<u>-</u>	<u>140,002</u>
Total operating revenues	<u>17,426</u>	<u>428,538</u>
<b>OPERATING EXPENSES</b>		
Personal services	-	-
Supplies	-	-
Purchased services	44,209	-
Fixed charges	-	1,819,296
Depreciation	<u>8,010</u>	<u>-</u>
Total operating expenses	<u>52,219</u>	<u>1,819,296</u>
Operating loss	<u>(34,793)</u>	<u>(1,390,758)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest revenue	408	195
Interest expense	<u>-</u>	<u>-</u>
Total non-operating revenues (expense)	<u>408</u>	<u>195</u>
Loss before transfers	(34,385)	(1,390,563)
<b>TRANSFERS</b>		
Transfers in	<u>-</u>	<u>1,116,660</u>
Change in net position	(34,385)	(273,903)
Net position - beginning of year	<u>418,603</u>	<u>169,988</u>
Net position - end of year	<u>\$ 384,218</u>	<u>\$ (103,915)</u>

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2014

	Business-Type Activity <u>Beaver Creek Irrigation</u>	Governmental Activities Internal Service <u>Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from providing services	\$ 14,112	\$ -
Cash received from insurance payments	-	139,998
Cash received from miscellaneous sources	-	288,536
Cash payments to suppliers	(44,209)	(1,812,896)
Cash payments for professional services	3,314	-
Net cash flows from operating activities	<u>(26,783)</u>	<u>(1,384,362)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers in	-	1,221,660
Net cash flows from non-capital financing activities	<u>-</u>	<u>1,221,660</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of property	30,536	-
Net cash flows from capital and related financing activities	<u>30,536</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	408	195
Net cash flows from investing activities	<u>408</u>	<u>195</u>
Net change in cash and cash equivalents	4,161	(162,507)
Cash and cash equivalents - beginning of the year	<u>268,031</u>	<u>323,420</u>
Cash and cash equivalents - end of year	<u>\$ 272,192</u>	<u>\$ 160,913</u>
Cash and cash equivalents are presented on the statement of net position as follows:		
Cash	\$ 204,908	\$ 160,913
Restricted cash	<u>67,284</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 272,192</u>	<u>\$ 160,913</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ (34,793)	\$ (1,390,758)
Adjustments to reconcile operating income (loss) to cash flows from operating activities		
Depreciation	8,010	-
Changes in assets and liabilities	<u>-</u>	<u>6,396</u>
Net cash flows from operating activities	<u>\$ (26,783)</u>	<u>\$ (1,384,362)</u>

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Investment Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and investments	\$ 133,571	\$ 16,399,936
Property taxes receivable, net	-	597,556
Total assets	\$ 133,571	\$ 16,997,492
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 1,420,117
Intergovernmental payable	38,249	15,577,375
Total liabilities	\$ 38,249	\$ 16,997,492
<b>NET POSITION</b>		
Assets held in trust	\$ 95,322	\$ -

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Investment Trust Funds
ADDITIONS	
Contributions	\$ 61,529
Investment earnings	75
	61,604
DEDUCTIONS	
Distributions	45,161
Change in net position	16,443
Net position - beginning of year	78,879
Net position - end of year	\$ 95,322

The Notes to Financial Statements are an integral part of this statement.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

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

The financial statements of Hill County, Montana (the County) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as set forth in standards established by the Governmental Accounting Standards Board (GASB).

**New Accounting Pronouncement**

For the year ended June 30, 2014, the County implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Some items previously reported as assets are now classified as deferred outflows of resources or outflows (expenditures or expenses), and some items previously reported as liabilities are now classified as deferred inflows of resources or inflows (revenues). Statement No. 65 does not require the restatement of previously reported amounts in the financial statements.

**Accounting Standard Effective in the Future**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers. This statement establishes standards for measuring and recognizing net pension liabilities, deferred inflows and outflows of resources, and expenses/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement is effective for fiscal years beginning after June 15, 2014. The effect of the adoption of this statement cannot be determined at this time.

**Financial Reporting Entity**

Hill County was incorporated under the Montana Constitution, Article XI, Local Government, Section 2 – Counties. The County operates under a three-member commission form of government and provides the following services authorized by its charter: public safety, public works, public health, social and economic services, culture and recreation and general government services.

As required by GAAP, these financial statements include the County (primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine whether or not the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Reporting Entity (Continued)**

***Primary Government***

The County is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

***Discretely Presented Component Units***

Discretely presented component units are separate legal entities that meet the component unit criteria described above. Hill County has reported the Unified Disposal District, a legally separate entity, as a discretely presented component unit. The Unified Disposal District was formed to coordinate solid waste collections and disposals for Hill County, Blaine County, The City of Chinook, City of Harlem, and Chouteau County Refuse District Number 1. The Unified Disposal Board consists of twelve members who are appointed by the local governments participating in the District.

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

***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 Net Position presents the financial condition of the governmental and business-type activities of the County at year-end. 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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)**

***Government-wide Financial Statements (Continued)***

***Basis of Presentation (Continued)***

Certain eliminations have been made as prescribed by GASB Statement No. 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***

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

***Fund Financial Statements***

***Basis of Presentation***

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

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)**

***Fund Financial Statements (Continued)***

***Basis of Presentation (Continued)***

A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- Total assets, liabilities, 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
- The same elements(s) that meet the 10 percent criteria above are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

***Measurement Focus and Basis of Accounting***

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

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

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

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)**

***Major Governmental Funds***

The County reports the following major governmental funds:

*General Fund* – Hill County’s primary operating fund accounting for all financial resources of the County except those required to be accounted for in other funds.

*Road* – A special revenue fund accounting for activities relating to road work.

***Proprietary Funds***

All proprietary funds are accounted for using the economic resources measurement focus and 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. The County has one enterprise fund that accounts for the activities for Beaver Creek Irrigation.

***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). Agency funds have no measurement focus.

The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

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

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

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)**

***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.

**Assets, Liabilities and Net Position**

***Cash and Investments***

The County 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."

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.

The County has one pooled investment trust fund, invested in STIP, certificates of deposit and a repurchase agreement. The pooled funds are carried at 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.

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

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.

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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or as “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances are reported as “due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Miscellaneous receivables are presented net of an allowance for doubtful accounts, if material.

***Property Taxes***

Property tax levies are set in August, after the Montana Department of Revenue 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 County. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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

Taxable valuations, mill values and mill levies for the November 2013 property taxes are as follows:

Taxable Value	<u>\$ 32,643,000</u>
Value of a Mill	<u>\$ 32,643</u>
Mills Levied	<u>139.31</u>

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

***Property Taxes (Continued)***

State law limits the number of mills the County can levy to the amount of property tax dollars levied in the prior tax year plus the amounts related to the taxable value for annexation of real property, new construction and improvements, debt service, one half of the average rate of inflation for the past three years based on the Consumer Price Index, and certain other exceptions.

***Inventories***

Inventories are valued at cost using the first-in, first-out method. Inventories are reported as expenditures in the governmental funds when purchased. Since inventories are not an asset converted to cash, a reservation of fund balance is required to show that they are not available for appropriation.

***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	50–100 years
Improvements	30–60 years
Equipment	5–25 years
Infrastructure	50–65 years

***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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

***Long-Term Debt***

In the governmental-wide and proprietary financial statements, long-term debt and other long-term obligations reported as liabilities. Bond issuance costs and bond discounts or premiums, are expensed at the date of sale.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities until due. 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.

***Deferred Inflows of Resources***

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

***Net Position and Fund Balance Classification***

Net position represents the difference between assets, liabilities and deferred inflows/outflows as applicable. Net investment in capital assets reflects the depreciated cost of capital assets less the outstanding balance of any borrowing used for the acquisition, construction or improvement to capital assets. Net position is reported as restricted when there are limitations imposed on the resources used either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

GASB Statement No. 54 requires the presentation of governmental fund balances by specific purpose. Fund balance classifications are presented in the aggregate for the following fund balance classifications:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in a spendable form or because of legal or contractual restrictions. The County's non-spendable fund balance consists of inventory in the Road fund.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

***Net Position and Fund Balance Classification (Continued)***

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action (board resolution) of the highest level of decision making authority and do not lapse at year end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. The governing body, by adoption of its fund balance classification policy, has delegated authority to assign amounts to the Finance Director based on future budget expenditures. Assigned fund balance may become unassigned by the same action.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-described categories, and negative fund balance in other governmental funds.

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

**Budgets**

The County follows the provisions of Montana law to prepare and adopt its budget. The budget is adopted using the same basis of accounting as the fund financial statements. Revenues (except for property taxes) are budgeted in the year they become measurable and available. Expenditures are budgeted in the year they are expected to be incurred. The County includes in its budget the full amount of property taxes levied for the year. Delinquencies in current year taxes are generally offset by collections of prior years' delinquencies.

The County has established budgetary control at the fund level. Budget transfers may be made by departments between and among the general classifications of operations, provided that total expenditures do not exceed the total fund budget. Changes in personal service and capital outlay budgets require the majority vote of the County Commissioners. The amounts reported as the original budget represent the original adopted budget. Amounts reported as final budget represent the final budget, including all amendments and transfers.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

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

**Cash Composition**

The composition of cash, deposits and investments at fair value on June 30, 2014, follows:

Cash on Hand and Deposits	
Cash on hand	\$ 181,939
Demand deposits	1,634,012
Savings deposits	1,044,880
Certificates of deposit	3,577,283
Investments	
State Short-Term Investment Pool (STIP)	15,322,573
U.S. Government Securities	613,657
Repurchase agreements	<u>3,329,479</u>
	<u>\$ 25,703,823</u>

**Repurchase Agreements**

Repurchase agreements are agreements 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.

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

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 place 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.

Short Term Investment Pool (STIP) Credit Quality ratings by the NRSRO as of June 30, 2014:

Investment Type	Amortized Cost \$(000)	Credit Quality Rating
Asset Backed Commercial Paper	\$ 777,418	A1
Corporate Commercial Paper	138,958	A1
Corporate Variable-Rate	658,894	A1
Certificates of Deposit - Fixed Rate	100,000	A1
Certificates of Deposit - Variable Rate	391,996	A1+
Other Asset Backed Securities	38,440	NR
U.S. Government Agency - Fixed Rate	75,003	A1+
U.S. Government Agency - Variable Rate	20,003	A1+
Money Market Funds (Unrated)	133,440	NR
Money Market Funds (Rated)	<u>21,000</u>	A1+
Total	<u>\$ 2,355,152</u>	A1

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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)**

**Pledged Securities**

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 ratio of less than 6%.

As of June 30, 2014, \$510,000 of the County's deposits was insured and \$5,942,652 was held by the pledging bank in the County's name. The amount of collateral held for County deposits at June 30, 2014, equaled or exceeded the amount required by State statutes.

**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.

Investment	Interest Rate	Maturity Dates	Amount
Goldman Sach Financial Square Prime	0.01	N/A	\$ 2,250.55
US Treasury Notes	0.625	12/15/2016	16,990.70
Fed Natl Mtg Assn Notes 1.15	1.15	11/18/2014	15,056.39
Fed Natl Mtg Assn Notes .875	0.875	12/20/2017	<u>10,917.29</u>
			45,214.93
Goldman Sach Financial Square Prime	0.01	N/A	5,385.68
US Treasury Notes	0.25	12/31/2015	6,000.47
Fed Natl Mtg Assn Notes 1.15	1.15	11/18/2014	<u>6,022.55</u>
			17,408.70
Northern Institutional Govt MoneyMarket .01			4,111.41
US Treasury Notes	1.625	3/31/2019	85,245.74
Fed Home Loan Bank Notes	2.75	12/12/2014	35,407.65
Fed Home Loan Bank Notes 1	1.75	9/11/2015	40,726.44
Fed Home Loan Bank Notes	1.4	11/27/2015	50,714.30
Fed Home Loan Bank Notes	2.375	12/11/2015	30,857.37
Fed Natl Mtg Assn Notes .375	0.375	7/5/2016	69,670.16
Fed Natl Mtg Assn Notes	1.25	9/28/2016	40,586.80
Fed Home Loan Mtg Corp Notes	0.875	10/14/2016	30,195.12
Fed Home Loan Mtg Corp Notes	1	7/28/2017	75,046.05
Fed Home Loan Bank Notes 1.0 (Callable)	1.09	3/27/2018	14,874.27
Fed Home Loan Mtg Corp Notes (Callable)	1.05	4/30/2018	<u>72,899.32</u>
			550,334.63
Northern Institutional Govt MoneyMarket .01			<u>698.48</u>
Total			<u>\$ 613,656.74</u>

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)**

**Condensed Statements of Investments Pool**

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

ASSETS	
Cash and cash equivalents	
Investments	\$ 16,533,507
Total assets	<u>\$ 16,533,507</u>

NET POSITION	
Internal pool participants	\$ 133,571
External pool participants	<u>16,399,967</u>
Total net position	<u>\$ 16,533,538</u>

Statement of Changes in Net Position

ADDITIONS	
Investment earnings	\$ -
Contributions	<u>153,440,718</u>
Total additions	<u>153,440,718</u>

DEDUCTIONS	
Distributions to pool participants	<u>152,522,592</u>
Change in net position	918,126
Net position beginning of year	<u>15,615,412</u>
Net position - end of year	<u>\$ 16,533,538</u>

**Restricted Cash and 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.

Other Governmental Funds	
Bond reserve	<u>\$ 12,240</u>
Beaver Creek Irrigation District	
Replacement and depreciation	<u>\$ 67,284</u>
Unified Disposal District	
Bond reserve	\$ 90,000
Debt service reserve	33,830
Replacement and depreciation	98,740
Landfill closure and postclosure	551,033
Landfill closure and postclosure - new	<u>62,624</u>
	<u>\$ 836,227</u>

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 3. CAPITAL ASSETS**

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 646,920	\$ -	\$ (23,420)	\$ 623,500
Construction in progress	<u>152,342</u>	<u>130,150</u>	<u>(168,570)</u>	<u>113,922</u>
Total capital assets not being depreciated	<u>799,262</u>	<u>130,150</u>	<u>(191,990)</u>	<u>737,422</u>
Other capital assets				
Buildings	10,102,326	-	-	10,102,326
Improvements other than buildings	1,881,129	290,675	-	2,171,804
Machinery and equipment	7,362,103	229,263	(44,803)	7,546,563
Infrastructure	<u>1,294,980</u>	<u>-</u>	<u>-</u>	<u>1,294,980</u>
Total capital assets	<u>21,439,800</u>	<u>650,088</u>	<u>(236,793)</u>	<u>21,115,673</u>
Less accumulated depreciation on				
Buildings	2,587,234	116,134	-	2,703,368
Improvements other than buildings	292,285	44,414	-	336,699
Machinery and equipment	4,694,931	416,110	(43,070)	5,067,971
Infrastructure	<u>77,943</u>	<u>14,219</u>	<u>-</u>	<u>92,162</u>
Total accumulated depreciation	<u>7,652,393</u>	<u>590,877</u>	<u>(43,070)</u>	<u>8,200,200</u>
Capital assets, net	<u>\$ 13,787,407</u>	<u>\$ 59,211</u>	<u>\$ (193,723)</u>	<u>\$ 13,652,895</u>

Governmental activities depreciation expense was charged to functions as follows:

General government	\$ 79,232
Public safety	151,152
Public works	287,154
Public health	18,261
Social and economic services	11,629
Culture and recreation	42,319
Conservation of natural resources	<u>1,130</u>
	<u>\$ 590,877</u>

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 3. CAPITAL ASSETS (CONTINUED)**

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated				
Land	\$ 11,322	\$ -	\$ -	\$ 11,322
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>11,322</u>	<u>-</u>	<u>-</u>	<u>11,322</u>
Other capital assets				
Buildings	80,170	-	(30,536)	49,634
Improvements other than buildings	1,059,551	-	-	1,059,551
Machinery and equipment	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Total capital assets	<u>1,145,721</u>	<u>-</u>	<u>(30,536)</u>	<u>1,115,185</u>
Less accumulated depreciation on				
Land	-	-	-	-
Buildings	49,634	-	-	49,634
Improvements other than buildings	950,837	8,010	-	958,847
Machinery and equipment	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Total accumulated depreciation	<u>1,006,471</u>	<u>8,010</u>	<u>-</u>	<u>1,014,481</u>
Capital assets, net	<u>\$ 150,572</u>	<u>\$ (8,010)</u>	<u>\$ (30,536)</u>	<u>\$ 112,026</u>

A summary of changes in component-unit capital assets was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated				
Land	\$ 417,786	\$ 2,843	\$ -	\$ 420,629
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>417,786</u>	<u>2,843</u>	<u>-</u>	<u>420,629</u>
Other capital assets				
Buildings	825,278	-	-	825,278
Improvements other than buildings	1,474,052	17,462	-	1,491,514
Machinery and equipment	<u>1,270,227</u>	<u>482,547</u>	<u>-</u>	<u>1,752,774</u>
Total capital assets	<u>3,987,343</u>	<u>502,852</u>	<u>-</u>	<u>4,490,195</u>
Less accumulated depreciation on				
Land	4,548	-	-	4,548
Buildings	23,611	8,153	-	31,764
Improvements other than buildings	147,549	21,048	-	168,597
Machinery and equipment	<u>771,766</u>	<u>109,254</u>	<u>-</u>	<u>881,020</u>
Total accumulated depreciation	<u>942,926</u>	<u>138,455</u>	<u>-</u>	<u>1,085,929</u>
Capital assets, net	<u>\$ 3,044,417</u>	<u>\$ 364,397</u>	<u>\$ -</u>	<u>\$ 3,404,266</u>

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 4. LONG TERM DEBT**

During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,245,000	\$ -	\$ 295,000	\$ 950,000	\$ 305,000
Special assessment bond	42,000	-	5,250	36,750	5,250
Contracted debt	29,608	-	14,956	14,652	14,652
OPEB implicit rate subsidy	1,025,996	134,695	-	1,160,691	-
Compensated absences	483,831	-	24,905	458,926	337,603
	<u>\$ 2,826,435</u>	<u>\$ 134,695</u>	<u>\$ 340,111</u>	<u>\$ 2,621,019</u>	<u>\$ 662,505</u>
Component Unit:					
Revenue bonds	\$ 791,957	\$ -	\$ 58,142	\$ 733,815	\$ 61,142
Contracted debt	60,474	145,096	60,474	145,096	75,310
Landfill Liability	576,176	-	21,290	554,886	-
OPEB implicit rate subsidy	85,728	-	-	85,728	-
Compensated absences	39,453	-	5,799	33,654	24,756
	<u>\$ 1,553,788</u>	<u>\$ 145,096</u>	<u>\$ 145,705</u>	<u>\$ 1,553,179</u>	<u>\$ 161,208</u>

**General Obligation Bonds**

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. General obligation bonds outstanding as of June 30, 2014, were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Issue Amount	Balance June 30, 2014
Series 2009 - Jail	2009	Varies	7 years	2017	<u>\$ 2,350,000</u>	<u>\$ 950,000</u>

Annual requirements to amortize general obligation debt follow:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 305,000	\$ 28,500	\$ 333,500
2016	315,000	19,350	334,350
2017	<u>330,000</u>	<u>9,900</u>	<u>339,900</u>
	<u>\$ 950,000</u>	<u>\$ 57,750</u>	<u>\$ 1,007,750</u>

**Special Assessment Debt**

Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. Rural special improvement districts bonds were issued with revolving fund backing.

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 4. LONG TERM DEBT (CONTINUED)**

**Special Assessment Debt (Continued)**

The County is obligated to levy and collect a general property tax on all taxable property in the Entity to provide additional funding for the debt service payments. The cash balance in the Revolving Fund must equal at least 5% of the principal amount of bonds outstanding. Special assessment bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Issue Amount</u>	<u>Balance June 30, 2014</u>
RSID #30	1981	Varies	40 years	2021	<u>\$ 210,000</u>	<u>\$ 36,750</u>

Annual requirements to amortize special assessment debt follow:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,250	\$ 1,838	\$ 7,088
2016	5,250	1,575	6,825
2017	5,250	1,313	6,563
2018	5,250	1,050	6,300
2019	5,250	788	6,038
2020	5,250	525	5,775
2021	<u>5,250</u>	<u>263</u>	<u>5,513</u>
	<u>\$ 36,750</u>	<u>\$ 7,352</u>	<u>\$ 44,102</u>

**Revenue Bonds**

The County also issues bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Issue Amount</u>	<u>Balance June 30, 2014</u>
Solid Waste Facility	1995	1.25%	30 years	2025	<u>\$ 900,000</u>	<u>\$ 733,815</u>

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The County was in compliance with applicable covenants as of June 30, 2014.

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 4. LONG TERM DEBT (CONTINUED)**

**Revenue Bonds (Continued)**

Annual requirements to amortize revenue bonds follow:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 61,142	\$ 9,173	\$ 70,315
2016	61,142	8,408	69,550
2017	61,142	7,644	68,786
2018	61,142	6,880	68,022
2019	61,142	6,116	67,258
2020	61,142	5,351	66,493
2021	61,142	4,587	65,729
2022	61,142	3,823	64,965
2023	61,142	3,058	64,200
2024	61,142	2,294	63,436
2025	61,142	1,530	62,672
2026	<u>61,253</u>	<u>766</u>	<u>62,019</u>
	<u>\$ 733,815</u>	<u>\$ 59,630</u>	<u>\$ 793,445</u>

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2014, were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Issue Amount	Balance June 30, 2014
Bridge (1)	2005	Varies	10 years	2015	<u>\$ 136,370</u>	<u>\$ 14,652</u>

The remaining balance of the bridge loan is due in fiscal year 2015.

**NOTE 5. 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.

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 5. POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

**Funding Status and funding Progress**

The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,245,148
Actuarial value of plan assets	<u>                  -</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 2,245,148</u></u>
Funded ratio (actuarial value of plan assets / AAL)	<u><u>\$                  -</u></u>
Covered payroll	<u><u>\$ 3,965,474</u></u>
UAAL as percent of covered payroll	<u><u>56.6%</u></u>

**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)	\$ 267,241
Interest on net OPEB obligation	7,901
Adjustment to ARC	<u>(10,982)</u>
Annual OPEB cost	<u>264,160</u>
Contributions made	<u>129,465</u>
Increase in net OPEB obligation	134,695
Net OPEB obligation - beginning of year	<u>1,111,724</u>
Net OPEB obligation - end of year	<u><u>\$ 1,246,419</u></u>

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 5. POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

**Actuarial Methods and Assumptions**

The following actuarial methods and assumptions were used:

Investment return		4.0%
Average salary increase		2.0%
Healthcare cost rate trend (Federal Office of the Actuary)		
	2015	9.0%
	2016	8.5%
	2017	8.0%
	2018	7.5%
	2019	7.0%
	2020	6.5%
	2021	6.0%
	2022	5.5%
	2023	5.0%
	2024 and thereafter	?

**NOTE 6. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that Unified Disposal District a component unit of Hill 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 Unified Disposal District a component unit of Hill County has closed the 1983 landfill and current estimates indicate the closure and post closure costs will be \$554,886. The Unified Disposal District a component unit of Hill County has established a trust to ensure that they will be able to pay for the applicable costs.

The \$599,405 reported as landfill closure and postclosure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 1.81% of the estimated capacity of the new landfill, and 100% of the old landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,906,225 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 County expects to close the landfill in the year 2122. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 7. INTERFUND BALANCES**

**Interfund Receivables and Payables**

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

Purpose	Receivable Fund	Payable Fund	Amount
Short-term loan	General - Major Governmental	Drug Court - Nonmajor Governmental	\$ 74,526
Short-term loan	General - Major Governmental	Homeland Security - Nonmajor Governmental	47,369
Short-term loan	General - Major Governmental	WIC - Nonmajor Governmental	6,608
Short-term loan	General - Major Governmental	Fed DOJ - Nonmajor Governmental	1,570
Short-term loan	General - Major Governmental	PHEP - Nonmajor Governmental	11,514
Short-term loan	General - Major Governmental	MCH - Nonmajor Governmental	27,569
Short-term loan	General - Major Governmental	Immunization - Nonmajor Governmental	4,881
Short-term loan	General - Major Governmental	General - Major Governmental	2,555
Short-term loan	Road Fund - Major Governmental	General - Major Governmental	6,566
To temporarily cover deficit cash	Federal Mineral Royalties - Nonmajor Governmental	Construction/Building - Nonmajor Governmental	35,416
Short-term loan	Oil and Gas Accelerated Tax - Nonmajor Governmental	Self Insurance - Internal Service Fund	105,000
Miscellaneous	Oil and Gas Accelerated Tax - Nonmajor Governmental	#11 Mtn - Nonmajor Governmental	22,165
Short-term loan	Disaster Park - Nonmajor Governmental	General - Major Governmental	87,648
Short-term loan	MCH - Nonmajor Governmental	General - Major Governmental	82,491
Short-term loan	Immunization - Nonmajor Governmental	General - Major Governmental	1,800
Debt service	Revolving - Nonmajor Governmental	SID#30 - Nonmajor Governmental	6,721
			<u>\$ 524,399</u>

**Interfund Transfers**

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

Purpose	Transferred To	Transferred From	Amount
Budgetary funding transfer	General - Major Governmental	Oil and Gas Production Tax - Nonmajor Governmental	\$ 107,762
Budgetary funding transfer	General - Major Governmental	District Court - Nonmajor Governmental	31
Reimburse Road for FEMA project	Road - Major Governmental	Disaster Park - Nonmajor Governmental	43,760
Budgetary funding transfer	Road - Major Governmental	Oil and Gas Production Tax - Nonmajor Governmental	275
Budgetary funding transfer	Bridge - Nonmajor Governmental	Parks - Nonmajor Governmental	3,000
Budgetary funding transfer	County Plannign Board - Nonmajor Governmental	Oil and Gas Production Tax - Nonmajor Governmental	870
Budgetary funding transfer	Disaster Park - Nonmajor Governmental	Parks - Nonmajor Governmental	5,295
Future capital outlay	2009 GO Jail Bond - Nonmajor Governmental	GOB Jail - Nonmajor Governmental	2,279
Future capital outlay	Construction/Building - Nonmajor Governmental	General - Major Governmental	37,083
Future capital outlay	Construction/Building - Nonmajor Governmental	Oil and Gas Production Tax - Nonmajor Governmental	20,000
Future capital outlay	Bridge Project - Nonmajor Governmental	Road - Major Governmental	43,000
Future capital outlay	Park Trust - Fiduciary	Park Capital Projects - Nonmajor Governmental	4,078
			<u>\$ 267,433</u>

**NOTE 8. STATE-WIDE RETIREMENT PLANS**

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

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 8. STATE-WIDE RETIREMENT PLANS (CONTINUED)**

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:

	PERS**	SRS	TRS
Employer	8.070%	10.115%	8.470%
Employee	7.900% *	9.425%	7.900%
State	0.100%	0.000%	0.100%

\* For PERS members retired after 7/1/2011 the rate is 7.9%.

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

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

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

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

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

	PERS**	SRS	TRS
2012	\$ 207,649	\$ 300,240	\$ 1,550
2013	221,570	87,314	3,136
2014	251,399	88,466	-

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 9. FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54 requires the County to present the governmental fund balances and each major special revenue fund balances by specific purposes. In the basic financial statements, the fund balance classifications are presented in the aggregate. The table presented below further displays the fund balances by major purposes:

Major Funds	
General	\$ 25,221
Road	<u>534,371</u>
Other Governmental Funds	
Public Works	966,045
Public Health	263,069
Culture and Recreation	33,823
Public Safety	610,852
Housing and Community Development	-
Social and Economic Services	175,515
General Government	297,692
Debt Service	<u>-</u>
	<u>2,346,996</u>
	<u><u>\$ 2,906,588</u></u>

**NOTE 10. DEFICIT FUND BALANCES/NET POSITION**

The following funds reported deficit fund balances at June 30, 2014:

Fund Name	Amount	Reason for Deficit	How Deficit will be Eliminated
Internal Service Fund	<u>\$ (103,915)</u>	Health insurance claims exceeded revenues	Effective July 1, 2014, the County is no longer self-insured

**NOTE 11. 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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 11. JOINT VENTURES (CONTINUED)**

**City-County Airport**

The City-County Airport is owned and operated jointly by Hill County and the City of Havre. The City-County Airport is administered by a seven-member board comprised of three members appointed by the Board of County Commissioners, three members appointed by the City Council, and one member selected at large. The County levies and collects an annual tax and remits the proceeds to the City-County Airport Board. The City of Havre collects and remits an equal amount. Financial statements of the City-County Airport can be obtained by contacting the City of Havre.

**Law Enforcement Services**

The County participated in a law-enforcement service agreement with the Town of Hingham for the fiscal year ended June 30, 2014.

**City-County Library**

Hill County and the City of Havre jointly operate a library facility. The County levies and collects an annual tax and remits the proceeds to the City of Havre in accordance with an agreement with the City. The City maintains managerial and financial control over the operations of the Library. Only the revenues collected by the County from the tax levy and the remittance to the City of Havre are reflected in the County's financial statements within the Special Revenue Fund. Financial statements of the City-County Library can be obtained by contacting the City of Havre.

**NOTE 12. SERVICES PROVIDED TO OTHER GOVERNMENTS**

Hill 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.

HILL COUNTY, MONTANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2014

**NOTE 13. 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, employee's torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

**Insurance Pools**

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

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

The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts.

The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

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

HILL COUNTY, MONTANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2014

**NOTE 13. RISK MANAGEMENT (CONTINUED)**

**Self Insurance**

Hill County provides medical insurance coverage for its employees via a partially self-insured plan administered by EBMS. It provides medical and dental benefits to Hill County employees and their covered dependents. Rates are determined in consultation with the administrator based on past claim experience and are set at 125% of estimated claims. Medical claims exceeding \$65,000 per claimant and in excess of 125% of total expected claims are covered by a commercial stop-loss policy. A reconciliation of the claims payable follows:

Claims payable, July 1, 2013		\$ 153,432
Claims incurred		1,825,696
Claims paid		<u>(1,819,296)</u>
Claims payable, June 30, 2014		<u>\$ 159,832</u>

**NOTE 14. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff. The County Attorney has made no evaluation as to the outcome of each case.

The below cases are being vigorously defended by the County and are covered under the County's liability insurance. Management of the County believes they will prevail. Management also believes that in the event of any adverse judgment, there would be no material impact to on the financial condition of the County.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>Summer Stricker, the Personal Representative of the Estate of Allen J. Longsoldier, Jr. v. Blaine County and Hill County, Human Rights Case</i>	\$1,350,000	Possible
<i>Summer Stricker, Personal representative of the Estate of Allen J. Longsoldeir v. Hill County, Blaine County, and the State of Montana.</i>	Not stated	Not stated

REQUIRED SUPPLEMENTAL INFORMATION

HILL COUNTY, MONTANA  
 BUDGETARY COMPARISON SCHEDULE  
 For the Fiscal Year Ended June 30, 2014

GENERAL FUND	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>RESOURCES (INFLOWS)</b>				
Taxes and assessments	\$ 2,786,511	\$ 2,786,511	\$ 2,826,077	\$ 39,566
Licenses and permits	840	840	1,925	1,085
Intergovernmental	536,118	536,118	552,277	16,159
Charges for services	449,643	449,643	547,886	98,243
Fines and forfeitures	138,000	138,000	109,052	(28,948)
Miscellaneous	17,590	17,590	19,660	2,070
Investment earnings	<u>55,000</u>	<u>55,000</u>	<u>46,790</u>	<u>(8,210)</u>
Amounts available for appropriation	<u>3,983,702</u>	<u>3,983,702</u>	<u>4,103,667</u>	<u>119,965</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
General government	2,856,555	2,856,555	2,591,329	(265,226)
Public safety	1,986,792	1,986,792	1,705,706	(281,086)
Public works	-	-	-	-
Public health	10,192	10,192	7,155	(3,037)
Social and economic services	140,936	140,936	110,080	(30,856)
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	22,540	22,540	-	(22,540)
Capital outlay	<u>87,329</u>	<u>87,329</u>	<u>74,129</u>	<u>(13,200)</u>
Total charges to appropriations	<u>5,104,344</u>	<u>5,104,344</u>	<u>4,488,399</u>	<u>(615,945)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	107,793	107,793
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(37,083)</u>	<u>162,917</u>
Total other financing sources (uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>70,710</u>	<u>270,710</u>
Net change in fund balance	<u>\$ (1,320,642)</u>	<u>\$ (1,320,642)</u>	<u>(314,022)</u>	<u>\$ 1,006,620</u>
Fund balance - beginning of year			<u>2,836,085</u>	
Fund balance - end of year			<u>\$ 2,522,063</u>	

HILL COUNTY, MONTANA  
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
 For the Fiscal Year Ended June 30, 2014

ROAD FUND	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>RESOURCES (INFLOWS)</b>				
Taxes and assessments	\$ 963,474	\$ 963,474	\$ 974,467	\$ 10,993
Licenses and permits	-	-	-	-
Intergovernmental	55,615	55,615	55,615	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	25	25
Investment earnings	<u>15,000</u>	<u>15,000</u>	<u>15,395</u>	<u>395</u>
Amounts available for appropriation	<u>1,034,089</u>	<u>1,034,089</u>	<u>1,045,502</u>	<u>11,413</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
General government	-	-	58,184	58,184
Public safety	-	-	-	-
Public works	1,258,016	1,258,016	1,122,016	(136,000)
Public health	-	-	-	-
Social and economic services	-	-	-	-
Culture and recreation	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Capital outlay	<u>52,700</u>	<u>52,700</u>	<u>52,700</u>	<u>-</u>
Total charges to appropriations	<u>1,310,716</u>	<u>1,310,716</u>	<u>1,232,900</u>	<u>(77,816)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	44,035	44,035
Transfers out	<u>(43,000)</u>	<u>(43,000)</u>	<u>(43,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(43,000)</u>	<u>(43,000)</u>	<u>1,035</u>	<u>44,035</u>
Net change in fund balance	<u>\$ (319,627)</u>	<u>\$ (319,627)</u>	<u>(186,363)</u>	<u>\$ 133,264</u>
Fund balance - beginning of year			<u>887,211</u>	
Fund balance - end of year			<u>\$ 700,848</u>	

HILL COUNTY, MONTANA  
 SCHEDULE OF FUNDING PROGRESS  
 FOR OPEB OBLIGATIONS  
 For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	<u>\$ -</u>	<u>\$ 2,245,148</u>	<u>\$ 2,245,148</u>	<u>0%</u>	<u>\$ 3,965,474</u>	<u>56.6%</u>

SINGLE AUDIT SECTION

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

To the Board of County Commissioners  
Hill County, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Hill County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hill County, Montana's basic financial statements, and have issued our report thereon dated May 18, 2015.

**Internal Control Over Financial Reporting**

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

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

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 as item #2014-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

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.

### **Compliance and Other Matters**

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

### **Hill County, Montana's Response to Findings**

Hill County, Montana's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hill County, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Havre, Montana  
May 18, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133

To the Board of County Commissioners  
Hill County, Montana

**Report on Compliance for Each Major Federal Program**

We have audited Hill County, Montana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Hill County, Montana's major federal programs for the year ended June 30, 2014. Hill County, Montana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Hill County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hill County, Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hill County, Montana's compliance.

**Basis for Qualified Opinion on USDA Special Supplemental Nutrition Program for Women, Infants, and Children CFDA #10.557**

As described in the accompanying schedule of findings and questioned costs, Hill County, Montana did not comply with requirements regarding eligibility under OMB A-133 that are applicable to its USDA Special Supplemental Nutrition Program for Women, Infants, and Children #10.557 and finding #2014-002. Compliance with such requirements is necessary, in our opinion, for Hill County, Montana to comply with the requirements applicable to that program.

**Qualified Opinion on USDA Special Supplemental Nutrition Program for Women, Infants, and Children CFDA #10.557**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Hill County, Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on USDA Special Supplemental Nutrition Program for Women, Infants, and Children CFDA #10.557 for the year ended June 30, 2014.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, Hill County, Montana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

**Other Matters**

Hill County, Montana's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hill County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of Hill County, Montana, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hill County, Montana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hill County, Montana's internal control over compliance.

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

*A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.*

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2014-002 to be a material weakness.

Hill County, Montana's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hill County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in cursive script that reads "Anderson Zurmuehlen & Co., P.C.".

Havre, Montana  
May 18, 2015

HILL COUNTY, MONTANA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2014

**Section I - Summary of Auditors' Results**

**Financial Statements:**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	Yes
Significant deficiency identified that is not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
Material weakness identified?	Yes
Significant deficiency identified that is not considered to be a material weakness?	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.557	USDA Special Supplemental Nutrition Program for Women, Infants, and Children
16.585	USDOJ Drug Court Discretionary
97.036	Department of Homeland Security Disaster Grants – Public Assistance (Presidentially Declared Disasters)
97.067	Homeland Security Grant Program
93.505	Affordable Care Act – Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

*Financial Statement Audit Findings:*  
 None.

HILL COUNTY, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Internal Control Over Financial Reporting Material Weakness:**

**#2014-001:**

*Criteria:* Analysis and reconciliation of account balances should be completed in a timely manner and financial reporting adjustments should be posted to the GASB 34 software used by the County to allow for accurate financial reporting. This should be completed prior to the start of audit fieldwork to ensure the financial statements are submitted to the State of Montana within six months of year end.

*Condition:* Hill County (the County) was unable to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and material audit adjustments were made to the trial balance to reconcile supporting documentation to the trial balance. The County was unable to submit financial statements to the State of Montana within six months of year end.

*Effect:* This has resulted in Hill County not submitting the financial statements within six months of year end.

*Cause:* The County's personnel did not have the accounting and financial records completely analyzed and reconciled prior to the start of audit fieldwork.

*Recommendation:* Prior to the start of fieldwork the balance sheet accounts should be reconciled and revenue and expenditure accounts should be reviewed and analyzed for accuracy. Any adjustments that rely on third party estimates that have not been received prior to starting the audit should be communicated to the auditors for later adjustment. In addition, Hill County should obtain training for the appropriate personnel in preparing financial statements in accordance with accounting principles generally accepted in the United States of America.

*Planned Corrective*

*Action:* Hill County staff will reconcile and analyze all account balances prior to audit fieldwork.

HILL COUNTY, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Federal Award Findings and Questioned Costs:**

**#2014-002:**

*Information on the Federal Programs:*

USDA Special Supplemental Nutrition Program for Women, Infants, and Children #10.557

*Criteria:* OMB A-133 Compliance Supplement requires recipients to verify eligibility for WIC participants based on establish criteria, including income, residency and identification.

*Condition:* The Hill County Health Department did not adequately verify eligibility for WIC participants.

*Questioned Costs:* None.

*Context:* In a sample of 40 participants, eligibility procedures were not adequately performed on five participants.

*Effect:* Noncompliance with OMB A-133 as it relates to eligibility could result in a loss of funding. Without proper verification of eligibility, ineligible participants could receive benefits resulting in questioned costs that could be deemed unallowable.

*Cause:* Management did not have appropriate controls in place to prevent non-compliance.

*Recommendation:* Hill County Health Department staff members should receive additional training from the State of Montana on eligibility determination procedures. Hill County should review its procedures for preventing and detecting non-compliance.

*Planned Corrective*

*Actions:* The new/current staff at the Hill County WIC office has a process in place for checking income eligibility for each client at each certification. When a client comes in for certification the staff will first check to see if the client has SNAP, TANF, etc. in the state SIS system. If they do the staff will put in all the state WIC ID numbers for that family (if there is more than one member in the household). The staff will then check each individual of the household for their eligibility for TANF, SNAP, etc. and put each individual state WIC ID number in. If they do not the staff then checks to see if the clients have Medicaid in the Medicaid web portal to obtain the client's Medicaid ID number.

If they have Medicaid the staff then checks their Medicaid eligibility in SIS and will put the entire household's state WIC ID numbers in. The staff then checks each individual in the household for Medicaid and puts in the individual state WIC ID numbers. This ensures that each client's eligibility is checked before they are certified.

HILL COUNTY, MONTANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2014

**Federal Award Findings and Questioned Costs (Continued):**

**#2014-002 (Continued):**

*Information on the Federal Programs (Continued):*

USDA Special Supplemental Nutrition Program for Women, Infants, and Children #10.557

*Planned Corrective*

*Actions (Continued):* To ensure that each participant has the correct proof of residency in their file, the new/current WIC staff will verify that the current proof of residency is correct and if it is not correct the staff will obtain the correct proof of residency before issuing benefits. If the client is new, the staff will obtain a correct form of proof of residency before printing benefits.

With these processes in place and being practiced it should eliminate the areas of program deviations in the future.

HILL COUNTY, MONTANA  
SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2014

**Summary Schedule of Prior Audit Findings**

**2013-1:**

*Information on the Federal Programs:*

Disaster Grants – Public Assistance (Presidentially Declared Disasters) #97.036

*Criteria:* For small projects FEMA will not request reimbursement if the small project costs are less than the amount estimated. For large projects FEMA requires full accounting of all costs and FEMA's share is based on the actual costs of the project.

*Condition:* The County received FEMA grants related to flooding that occurred in 2010 and 2011. The grants were separated by FEMA into "small" and "large" projects. The majority of the grants were considered small projects. As of June 30, 2013, the large projects were not considered complete. The County performed most of the repair work on the FEMA grants. Detailed supporting documentation was not available for the work provided by the County.

*Effect:* As of the completion of the audit, the large projects had not been completed. However, for the portions completed the prior year auditor was not provided adequate supporting documentation to support the amount spent on the project.

*Cause:* The County does not have an adequate cost tracking system for FEMA grants. The money for the grants is advanced to the County prior to work being performed. The County is not required to provide adequate documentation to the grantor to receive payment.

*Recommendation:* The County should create a job costing system to track all FEMA disbursements by project.

*Status:* This issue has been resolved.

HILL COUNTY, MONTANA  
SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
Year Ended June 30, 2014

**Summary Schedule of Prior Audit Findings (Continued)**

**2013-2:**

*Information on the Federal Programs:*

U.S. Department of Health and Human Services – Maternal, Infant, and Early Childhood Home Visiting Programs #93.505

*Criteria:* Federal grant management rules require the County to minimize the time between the collection of federal dollars and the disbursement of those dollars.

*Condition:* The County received several grants through the State Department of Public Health and Human Services (DPHHS). The purpose of the grants was to develop a community-based infrastructure for a comprehensive system of early childhood services. The State funded the grants by advancing \$200,925 to the County. As of June 30, 2013, the County had only obligated \$101,758.

*Effect:* The County is not in compliance with the cash management aspect of the federal grant by retaining \$93,167.

*Cause:* The County is not aware of this compliance requirement.

*Recommendation:* The County should contact DPHHS immediately to correct the cash management problem.

*Status:* This issue has been resolved.

HILL COUNTY, MONTANA  
SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
Year Ended June 30, 2014

**Summary Schedule of Prior Audit Findings (Continued)**

**2013-3:**

*Information on the Federal Programs:*

Disaster Grants – Public Assistance (Presidentially Declared Disasters) #97.036

*Criteria:* The grant award requires a 25% local match.

*Condition:* The County received FEMA grants related to flooding that occurred in 2010 and 2011. The grants require a 25% local match. The County did not document they met the matching requirements.

*Effect:* The County has not documented they met the local match requirement.

*Cause:* The County reports all FEMA money in their disaster fund. In the last two years, the disaster fund has not reported any other source of revenue other than federal FEMA money. The majority of the disbursements from the fund are transfers to the Parks and Road funds for work performed. However, the reimbursement does not break out the total cost of the project. Thus the prior year auditor was unable to determine if the County met the match requirement.

*Recommendation:* The County should create a job costing system to track all FEMA disbursements by project. The County should transfer its share of the match requirement to the disaster fund.

*Status:* This issue has been resolved.

HILL COUNTY, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<i>Other Programs</i>			
Department of Homeland Security Pass-Through Programs Passed-through Montana Department of Military Affairs Montana Department of Military Affairs Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
FEMA-4217-DR-MT - FEMA PW-17	97.036		\$ 2,555
FEMA-4217-DR-MT - FEMA PW-58	97.036		4,458
FEMA-4217-DR-MT - NA	97.036		<u>44,646</u>
<i>Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>			<u>51,659</u>
Montana Department of Military Affairs Hazard Mitigation Grant <i>Total Hazard Mitigation Grant</i>	97.039		<u>16,650</u> <u>16,650</u>
Montana Department of Military Affairs Emergency Management Performance Grants			
Emergency Management Performance Grants - EMW-2012-EP-00057-S0	97.042		4,433
Emergency Management Performance Grants - EMW-2013-EP-00044-S0	97.042		<u>21,147</u>
<i>Total Emergency Management Performance Grants</i>			<u>25,580</u>
Montana Department of Military Affairs Homeland Security Grant Program	97.067		<u>91,222</u>
<i>Total Passed-through Montana Department of Military Affairs</i>			<u>91,222</u>
<i>Total Department of Homeland Security</i>			<u>185,111</u>
Department of the Interior Pass-Through Programs Passed-through Montana Department of Commerce Montana Department of Commerce National Fire Plan - Wildland Urban Interface Community Fire Assistance			
	15.228		<u>36,393</u>
<i>Total Passed-through Montana Department of Commerce</i>			<u>36,393</u>
<i>Total Department of the Interior</i>			<u>36,393</u>
United States Department of Justice Direct Programs			
Bulletproof Vest Partnership Program	16.607		1,538
Drug Court Discretionary Grant Program	16.585		70,213
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		<u>26,554</u>
<i>Total United States Department of Justice Direct Programs</i>			<u>98,305</u>
United States Department of Justice Pass-Through Programs Passed-through Montana Board of Crime Control			
Montana Board of Crime Control Juvenile Accountability Block Grants	16.523		<u>38,390</u>
<i>Total Passed-through Montana Board of Crime Control</i>			<u>38,390</u>
<i>Total United States Department of Justice</i>			<u>136,695</u>

See Accompanying Notes to Schedule.

HILL COUNTY, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Department of Transportation Pass-Through Programs			
Passed-through MDT			
MDT Alcohol Impaired Driving Countermeasures Incentive Grants I			
Alcohol Impaired Driving Countermeasures Incentive Grant - 106692	20.601		25,899
Alcohol Impaired Driving Countermeasures Incentive Grant - 107370	20.601		<u>40,628</u>
<i>Total Passed-through MDT</i>			<u>66,527</u>
<i>Total Department of Transportation</i>			<u>66,527</u>
Department of Health and Human Services Pass-Through Programs			
Passed-through MDPHHS			
MDPHHSAffordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program			
Maternal, Infant, and Early Childhood Home Visiting Program - 14-07-5-01-091-0	93.505		14,002
Maternal, Infant, and Early Childhood Home Visiting Program - 13-07-5-31-030-0	93.505		109,363
MDPHHSTemporary Assistance for Needy Families	93.558		<u>70</u>
<i>Total</i>			<u>123,435</u>
MDPHHSSFamily Planning Services	93.217		<u>55,671</u>
<i>Total Family Planning Services</i>			<u>55,671</u>
MDPHHSSimmunization Cooperative Agreements			
Centers for Disease Control and Prevention - 14-07-4-31-120-0	93.268		46
Centers for Disease Control and Prevention - 13-07-4-31-020-0	93.268		<u>7,384</u>
<i>Total Immunization Cooperative Agreements</i>			<u>7,430</u>
MDPHHSMaternal and Child Health Services Block Grant to the States			
Maternal and Child Health Services Block Grant to the States - 13-07-5-11-007-0	93.994		976
Maternal and Child Health Services Block Grant to the States - 14-07-5-01-021-0	93.994		<u>21,787</u>
<i>Total Maternal and Child Health Services Block Grant to the States</i>			<u>22,763</u>
MDPHHSPPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds			
Prevention and Public Health Funds	93.539		<u>10,181</u>
<i>Total Prevention and Public Health Fund (Affordable Care Act)</i>			<u>10,181</u>
MDPHHSPublic Health Emergency Preparedness	93.069		<u>38,515</u>
<i>Total Public Health Emergency Preparedness</i>			<u>38,515</u>
<i>Total Department of Health and Human Services</i>			<u>257,995</u>

See Accompanying Notes to Schedule.

HILL COUNTY, MONTANA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 For the Year Ended June 30, 2014

Federal Grantor/Pass-Through	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
United States Department of Agriculture Direct Programs			
Federal-State Marketing Improvement Program	10.156		499
United States Department of Agriculture Pass-Through Programs			
Passed-through MDPHHS			
MDPHHS Special Supplemental Nutrition Program for Women, Infants, and Children			
Special Supplemental Nutrition Program for WIC - 14-07-5-21-010-0	10.557		49,880
Special Supplemental Nutrition Program for WIC - 13-07-5-21-010-0	10.557		<u>34,139</u>
<i>Total Special Supplemental Nutrition Program for Women,     Infants, and Children</i>			<u>84,019</u>
<i>Total United States Department of Agriculture</i>			<u>84,518</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 767,239</u>

See Accompanying Notes to Schedule.

HILL COUNTY, MONTANA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hill County, Hill County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.



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