

POWELL COUNTY, MONTANA
AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

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POWELL COUNTY, MONTANA
ORGANIZATION
FISCAL YEAR ENDED JUNE 30, 2014

BOARD OF COUNTY COMMISSIONERS

Cele Pohle	Presiding Officer
Donna Young	Member
Ralph E. Mannix	Member

COUNTY OFFICIALS

Lewis K. Smith III	Attorney
Diane S. Grey	Clerk and Recorder
Joan Burke	Clerk of Court
John Pohle	Coroner
JoAnne Nelson	Justice of the Peace
William Bandy	Public Administrator
Scott Howard	Sheriff
Jules Waber	Superintendent of Schools
Lisa D. Smith	Treasurer



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Shareholders

Patrick J. Burt, CPA
Michael E. Johns, CPA
Robert L. Bristol, CPA
Debbie A. Ouellette, CPA, MBA
James A. McKenzie, CPA
Nancy A. Clark, CPA
Kyle T. McGree, CPA
Craig C. Tippett, CPA

CPA's

Michael J. Blakeley
John E. Boyce

Of Counsel

John F. Burns, CPA

Founder

John N. Newland, CPA
(1906-1999)

INDEPENDENT AUDITOR'S REPORT

To the Council of Commissioners
Powell County
Deer Lodge, MT 59722

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the General Fund and the Road Fund, Law Enforcement Fund and the PILT Fund of Powell County 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 management's discussion and analysis on pages 5 - 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Powell County's basic financial statements. The 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 basic financial statements.

The 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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 March 25, 2015, on our consideration of Powell County'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 Powell County's internal control over financial reporting and compliance.

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A Professional Corporation

Deer Lodge, Montana
March 25, 2015

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

Our discussion and analysis of Powell County's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2014. Please read it along with the County's financial statements.

FINANCIAL HIGHLIGHTS

The County's net position increased \$836.4 thousand (5%), from \$18,963.7 thousand in fiscal year 2013 to \$19,800.1 thousand in fiscal year 2014. Details of the increased are discussed below.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 15 and 16) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as trustee or agent for the benefit of those outside the government.

Reporting the County as a Whole

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

These two statements report the County's *net position* and changes in them. You can think of the County's net position – the difference between assets and liabilities – as one way to measure the County's financial health, or *financial position*. The change in *net position* over time is one indicator of whether the County's financial health is improving or deteriorating. However, there are other nonfinancial factors that influence the County's fiscal health, such as changes in the economy and changes in the County's tax base, etc.

In the Statement of Net Position and the Statement of Activities, we divide the County into three kinds of activities:

- Governmental activities – Most of the County's basic services are reported here, including the police, public works, and general administration. Property taxes and state and federal grants and other shared revenues finance most of these activities.

- Business-type activities – The County owns a hospital building that had been leased to Powell County Memorial Hospital until September 2010. The building has been vacant since then and the only expense recorded in the hospital enterprise fund is depreciation on the building.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

- Component unit – The County includes the Council on Aging, a separate legal entity, in its report. Although legally separate, this “component unit” is included because the County is financially accountable for it.

Reporting the County’s Most Significant Funds

Our analysis of the County’s major funds begins on page 7. The Fund financial statements begin on page 17 and provide detailed information about the most significant funds – not the County as a whole. Certain funds are required to be established by State law while other funds are established by the County to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for certain taxes, grants and other money. The County’s two kinds of funds – *governmental* and *proprietary* – use different accounting approaches, as described below.

- *Governmental Funds* – The majority of the County’s basic services are reported in governmental funds, which focus on the flow of money into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can be readily converted to cash. The governmental fund statements provide a detailed *short-term view* of the County’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to finance the County’s programs in the near future. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental *funds* in the reconciliations following of the fund financial statements.
- *Proprietary funds* – When the County charges customers for the services it provides – whether to outside customers or to other units of the County – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE COUNTY AS A WHOLE

The County’s *combined* net position increased by roughly 5% (from \$18,963.7 thousand to \$19,801.5 thousand). Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County’s governmental and business-type activities.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

Table 1
Powell County Net Assets
(in Thousands)
Years Ending June 30, 2014 and 2013

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 8,435.4	\$ 7,634.0	\$ -	\$ -	\$ 8,435.4	\$ 7,634.0
Capital assets, net	<u>11,020.2</u>	<u>10,929.0</u>	<u>1,945.5</u>	<u>2,032.7</u>	<u>12,965.7</u>	<u>12,961.7</u>
Total assets	19,455.6	18,563.0	1,945.5	2,032.7	21,401.1	20,595.7
Current and other liabilities	686.3	730.8	-	-	686.3	730.8
Long-term liabilities	<u>913.3</u>	<u>901.3</u>	<u>-</u>	<u>-</u>	<u>913.3</u>	<u>901.3</u>
Total liabilities	1,599.6	1,632.1	-	-	1,599.6	1,632.1
Net position:						
Net investment in capital assets	10,982.4	10,842.6	1,945.5	2,032.7	12,927.9	12,875.3
Non-expendable endowment	250.3	250.3	-	-	250.3	250.3
Restricted - other	4,899.4	4,163.2	-	-	4,899.4	4,163.2
Unrestricted	<u>1,723.9</u>	<u>1,674.9</u>	<u>-</u>	<u>-</u>	<u>1,723.9</u>	<u>1,674.9</u>
Total net position	<u>\$ 17,856.0</u>	<u>\$ 16,931.0</u>	<u>\$ 1,945.5</u>	<u>\$ 2,032.7</u>	<u>\$ 19,801.5</u>	<u>\$ 18,963.7</u>

Net position of the County's business-type activities decreased 4% due to depreciation of the hospital building and the transfer of cash from the hospital enterprise fund to the general fund. The hospital building was vacated by the Powell County Memorial Hospital Association in September 2010 and has remained vacant ever since

Net position of the County's governmental activities increased approximately 6% (from \$16,931.0 thousand to \$17,856.0 thousand). The majority of this increase arose from the following:

- Larger than anticipated funding received under the Secure Rural Schools (SRS) and Community Self Determination Act. Given the uncertainty of future SRS funding, the Powell County Commissioners opted to save additional funding for use in subsequent years
- Larger than anticipated 9-1-1 emergency number funding. Again, the Commissioners opted to save this increase for future periods and system upgrades.
- Overall conservative spending amongst the County departments.

A large portion of the County's net position (62%) reflects its investment in capital assets. These assets include land, buildings, machinery and equipment and infrastructure.

Changes in Net Position

Government and Business-type activities increased the County's net position by \$836.4 thousand in 2014. The following table indicates the changes in net position for governmental and business-type activities in 2014.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

Table 2
Powell County Changes in Net Assets
(in Thousands)
Years Ending June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$ 534.8	\$ 722.2	\$ -	\$ -	\$ 534.8	\$ 722.2
Operating grants and contributions	1,308.9	945.7	-	-	1,308.9	945.7
Capital grants and contributions	434.0	401.6	-	-	434.0	401.6
General revenues						
Property taxes	2,918.7	2,849.5	-	-	2,918.7	2,849.5
Licenses and permits	4.5	3.3	-	-	4.5	3.3
Intergovernmental	506.7	475.9	-	-	506.7	475.9
Investment earnings	19.8	18.2	-	-	19.8	18.2
Gain on sale of equipment	22.0	5.7	-	-	22.0	-
Other revenues	65.8	31.9	-	-	65.8	31.9
Total revenues	<u>5,815.2</u>	<u>5,454.0</u>	<u>-</u>	<u>-</u>	<u>5,815.2</u>	<u>5,448.3</u>
Program expenses						
General government	1,457.9	1,354.7	-	-	1,457.9	1,354.7
Public safety	1,032.6	1,194.3	-	-	1,032.6	1,194.3
Public works	1,886.4	2,107.0	-	-	1,886.4	2,107.0
Public health	79.4	93.5	87.2	87.2	166.6	180.7
Social and economic services	116.5	110.6	-	-	116.5	110.6
Culture and recreation	149.2	161.8	-	-	149.2	161.8
Housing/community development	-	9.4	-	-	-	9.4
Interest on long-term debt	2.1	1.9	-	-	2.1	1.9
Miscellaneous	155.2	135.6	-	-	155.2	135.6
Total expenses	<u>4,879.3</u>	<u>5,168.8</u>	<u>87.2</u>	<u>87.2</u>	<u>4,966.5</u>	<u>5,256.0</u>
Increase in net assets						
before transfers	935.9	285.2	(87.2)	(87.2)	848.7	192.3
Transfers	(10.9)	(6.9)	-	-	(10.9)	(6.9)
Increase (decrease) in net assets	925.0	278.3	(87.2)	(87.2)	837.8	191.1
Net assets - July 1	<u>16,931.0</u>	<u>16,652.7</u>	<u>2,032.7</u>	<u>2,119.9</u>	<u>18,963.7</u>	<u>18,772.6</u>
Net assets - June 30	<u>\$ 17,856.0</u>	<u>\$ 16,931.0</u>	<u>\$ 1,945.5</u>	<u>\$ 2,032.7</u>	<u>\$ 19,801.5</u>	<u>\$ 18,963.7</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As noted above, in 2014 capital assets for the governmental funds increased primarily because of major grant funded projects.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

Debt

Details of the changes in long-term debt are described in the attached notes.

FUND FINANCIAL STATEMENTS

These fund financial statements provide detailed information about the County's major funds. Major funds are defined as the general fund and any other fund where the assets, liabilities, revenues, or expenditures/expenses exceed 10% of total governmental fund amounts or 10% of total enterprise fund amounts and 5% of total governmental and enterprise fund amounts combined.

In the 2014 fiscal year, the road fund, law enforcement fund, PILT fund, and the hospital enterprise fund exceeded these thresholds.

The road fund accounts for assessments used for maintenance of the County roads within the district. The law enforcement fund accounts for public safety within the City and County. The PILT fund accounts for the receipt in and transfer out of federal payments in lieu of taxes. The enterprise fund accounts for the rental activity of the County-owned hospital building.

The governmental funds provide a short-term view of the County's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Total governmental fund balances increased \$2.6 thousand in 2014 compared to the government-wide increase in net position of \$191.1 thousand. The primary reason for this difference is the purchase of capital assets which is reported as an expenditure in the government funds and an increase in assets in the government-wide statements.

Future of the County

Projects

The County has several ongoing and future projects pending, including:

1. Bridge Replacements

In May 2014, the County received a Treasure State Endowment Program (TSEP) grant \$320,940 for the replacement of the Center Street over Cottonwood Creek and Willow Road over Racetrack Creek bridges. As of March 25, 2015, \$258 thousand has been expended towards this project, but none of the bridges have been completed.

2. Milwaukee Roundhouse

The County has been awarded over \$950 thousand in state and federal grants to initiate a comprehensive cleanup of the 14.5-acre Milwaukee Roundhouse property. The site lies within the City of Deer Lodge with the Clark Fork River abutting the site to the north and the east, and Tin Cup Joe Creek to the west. The Chicago-Milwaukee Railroad operated a roundhouse, repair shops, and a refueling facility on the site between 1908 and 1980 before bankruptcy forced its closure. The abandoned site sat idle for nearly two decades until the County acquired the property as a means to initiate a cleanup of

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Unaudited)

the principal contaminants of heavy petroleum fuels, diesel fuel, and waste oils through federal and state grants. As of June 30, 2014, \$776 thousand of state, federal, and county funds had been expended on the cleanup and planning activities detailed in yearly summaries that follow.

2011 Summary

Large-scale remediation actions started in 2010 funded through federal and state grants. The County under advisement of their consultant limited on-site activities to the removal of metals from the northern portion of the property, and subsequently placed them in a temporary repository within a fenced area comprising the southern half of the site. During the summer of 2011, the EPA conducted an emergency spill response action triggered by the presence of oil on the surface of Tin Cup Joe Creek by removing the Bunker C oil underground storage tank and adjacent soil. The EPA intends to install a subsurface barrier and recovery sump to collect petroleum product on the top of the groundwater in January 2013, and return in the summer to remove oil-saturated soil along Tin Cup Joe Creek and the inactive trestle bridge.

2012 Summary

Powell County entered 2012 with the County Commissioners designating Great West Engineering as the County's technical partner on the Milwaukee Roundhouse Project. Great West already provides on-call engineering services to the County, and the Commissioners saw the importance of continuity with such a complex project. In March, the EPA installed a sheet pile wall backed by a rock-filled trench with a recovery well just within the fence separating the remediated area from the southern portion of the property as a means to collect oil floating on top of groundwater. In early 2013, the County obtained a second DNRC Planning Grant to compose an Environmental Assessment (Phase I) to jumpstart the process of creating a Voluntary Cleanup Plan for the site. Great West also submitted a second Reclamation & Development Planning Grant application for the 2014 Legislature to seek funding to remove and dispose the contaminated soil currently stored in the on-site repository. In November, the County learned a park/open space concept for the northern half of the site received a favorable recommendation for funding by the Natural Resource Damage Program's Advisory Council. The \$1.4-million proposal is waiting for final approval from the Governor. The EPA returned in September to exhume soil polluted with oil from the area between Tin Cup Joe Creek and the inactive railroad trestle to stop it from reaching the Clark Fork River. At the end of the year, the Coast Guard determined through a financial model that the County has a means to reimburse the federal government \$230,000 for a portion of the costs spent by the EPA to clean-up the site.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Unaudited)

2013 Summary

Department of Environment Quality (DEQ) in August completed its Data Summary Report for the Roundhouse site. With the report's completion, DEQ has retained TriHydro to conduct a two-year Remedial Investigation with the sampling phase to start in November and running for four or five months depending on winter field conditions. The sampling effort is very comprehensive with the collection of surface and subsurface soil and water with locations encompassing the entire site from the City property to the Mill. The sampling will occur on grids with 100 and 150-foot spacing. At the request of the County, DEQ will concentrate the initial sampling effort to the area north of the fence or the area corresponding to the proposed Trestle Park as a means to expedite the park project.

In July, Natural Resource Damage Program reviewed a preliminary project schedule for the Trestle Park prepared by Great West Engineering and Powell County. However due to DEQ's Remedial Investigation, NRDP will only allow the County proceed with initial stages of the project consisting of site analysis, seeking public comments, and the creation of a park design. The County intends to start these stages over the next several months.

In May, Powell County received a second Reclamation & Development Planning Grant from DNRC to fund the removal and disposal of contaminated soil currently stored at the on-site repository. Great West Engineering is coordinating with DEQ's Solid Waste Division to ensure the project complies with all testing requirements needed to dispose the material at the County Landfill as daily cover.

EPA completed their excavations to remove oily deposits along Tin Cup Joe Creek in August. With the completion of the work, the agency considers their obligation to the site as over since their efforts abated the risk of petroleum entering the Clark Fork River. Despite that appraisal, Powell County has not received any notice from the Coast Guard on its decision that the County has a responsibility to reimburse the Federal Government for a portion of the Emergency Response Action.

2014 Summary

The Montana DNRC awarded Reclamation and Development Grant Agreement RIT-14-8774 to Powell County on March 3, 2014. Powell County received \$300K to remove and legally dispose of approximately 7,000 cubic yards of contaminated soil from a temporary repository created on the Milwaukee Railroad Roundhouse site. A sequence of pre-construction testing revealed the material is not hazardous, however; the results did show high levels of petroleum. Unfortunately, the Deer Lodge Solid Waste Board decided against accepting the material since it is unsuitable for daily cover as originally envisioned. Great West Engineering advised

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Unaudited)

the County the best alternative is to haul the material to Butte-Silverbow.

By the end of the Fourth Quarter of 2014, project accomplishments included include the release of the bid package and subsequent selection of a contractor. During the last week of November material started being hauled to the Butte-Silverbow Landfill. Powell County also requested to extend the Agreement from December 31st to March 31, 2015 to accommodate the delays incurred to finalize the contract, and the onset of wintery weather in early November.

At the end 2014, contractual hauling of the contaminated soil was completed. Great West Engineering recognized the haul off removed more material than expected and informed the County that for upwards of \$10K, the contractor could complete the removal. The County Commissioners approved the expenditure on January 9, 2015.

Milwaukee Roundhouse Planning Grant

As noted, Powell County received Montana DNRC Agreement RITP-12-0055 on June 7, 2012 for \$50K. The project identified the following tasks: (1) Mapping; (2) Stakeholder Meetings; (3) Data Collection; (4) Develop Draft Environmental Assessment; (5) Develop Final Environmental Assessment; and (6) Develop Conceptual Remediation Alternatives.

After several extensions, the Agreement expired at the end of September 2014. DNRC allowed Powell County to direct unused funds to the Montana Department of Environmental Quality (MDEQ) and their consultant TriHydro for sampling as part of the Remedial Investigation. The sampling focused on the northern portion of the site or, the area designated for Trestle Park. Unfortunately, the results indicate the presence of more petroleum and heavy metals contamination than originally expected. As such, MDEQ will not sign off on the Park Plan knowing the extent of petroleum and metals as well as the undocumented flow of groundwater from south to north.

Powell County needs to complete and submit the Agreement's Final Report to DNRC.

3. Montana Land Information Act (MLIA) Grant

In June 2014, Powell County received a Montana Land Information Act Grant for \$15,870 to create a Land Use Inventory and Road Maintenance Classification. Staff turnover caused a delay in the project, but it is now under way. The grant is valid for one year.

POWELL COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014
(Unaudited)

4. Pipeline and Hazardous Materials Safety Administration Technical Assistance Grant
In September 2013, Powell County received a one-year grant from the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration. The intent of these grants is to fund technical assistance in the form of engineering or other scientific analysis of pipeline safety issues affecting local communities or to help increase the awareness of pipeline safety issues. The County anticipates to accomplish the following tasks through the \$18,288 award: (1) Create a Pipeline Development Permit, (2) Revise all other Development Permits to ensure building activities do not damage pipelines; (3) Draft new regulations supporting these new permits; (4) Inventory pipeline crossings at waterways and roads; (5) Verify National Pipeline Mapping System data with actual site conditions; (6) Review regulation changes with the Planning Board; and (7) Digitize well and septic information for existing properties.

2014 Summary

Powell County completed the GIS portion of the project and submitted the Final Report on November 14th. The Planning Department needs to prepare and submit the reimbursement (waiting to receive instructions from the PHMSA Agreement Administrator of how to create a Delphi invoicing account). The Planning Department also needs to create a Pipeline Development Permit to satisfy the Grant. Staff advised the Planning Board of the need to create the Permit at the Board's July 10th meeting. The Board advised staff to proceed with creating the Permit and establishing a fee.

5. Airport Master Plan Study
In August 2014, The Deer Lodge-City County Airport received a grant of \$138,690 from the Federal Aviation Administration to conduct an Airport Master Plan Study.

Financial Future

1. Hospital Facilities
The County-owned hospital facility has remained empty since vacated by Powell County Memorial Hospital Association, Inc. in September 2010. The fact that, until July 2019, the building can only be rented or sold to a non-profit entity has limited the number of eligible tenants or buyers. The cost of maintaining the building (just over \$20,000 for fiscal year 2014) will continue to be a financial drain on the general fund until a suitable tenant can be found.
2. Expenditures Outpacing Revenues
The cost of providing services continues to increase at a greater rate than the County's ability to levy tax revenue. The Commissioners have been countering this trend by reducing staff, working with department heads to decrease expenditures budgets as much as possible, and pursuing grant funding for major infrastructure projects. As these measures reach their peak effectiveness, the County will be forced to seek voted levies to maintain current levels of service. Accordingly, in June 2014 the County sought a permanent voted levy of 7 mills (approximately \$101,745) per year for the law

enforcement fund. Failure of this voted levy was a major contributing factor to the layoff of two sheriff's deputies.

3. Funding of Secure Rural Schools

The County road fund is heavily reliant on funding from the Secure Rural Schools Act which is only authorized through federal fiscal year 2013 (County fiscal year 2014). Should the Act not be reauthorized, the maximum mill levy allowed in the road fund will not be enough to provide adequate maintenance and repair of the existing County roads.

Requests for Information

This financial report is designed to provide a general overview of Powell County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of County Commissioners or County Finance Office at 409 Missouri Ave., Suite 203, Deer Lodge, MT 59722 or 406-846-9724.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash, cash equivalents, and investments:				
Unrestricted	\$ 6,970,474	\$ -	\$ 6,970,474	\$ 73,962
Restricted	953,992	-	953,992	-
Taxes/assessments receivable	323,741	-	323,741	-
Accounts receivable	7,901	-	7,901	-
Due from other governments	178,750	-	178,750	7,146
Prepaid expense	575	-	575	-
Capital assets not being depreciated:				
Land	305,489	2,500	307,989	-
Intangibles	26,635	-	26,635	-
Construction in progress	1,110,527	-	1,110,527	-
Capital assets net of accumulated depreciation:				
Buildings	1,047,219	1,942,969	2,990,188	-
Infrastructure	5,882,951	-	5,882,951	-
Improvements other than buildings	1,867,712	-	1,867,712	-
Machinery and equipment	779,641	-	779,641	4,963
 Total Assets	 <u>19,455,607</u>	 <u>1,945,469</u>	 <u>21,401,076</u>	 <u>86,071</u>
LIABILITIES				
Accounts payable and current liabilities	72,967	-	72,967	960
Due to other governments	5,437	-	5,437	-
Revenues collected in advance	607,863	-	607,863	-
Non-current liabilities:				
Due within one year	40,812	-	40,812	-
Due in more than one year	872,525	-	872,525	-
 Total liabilities	 <u>1,599,604</u>	 <u>-</u>	 <u>1,599,604</u>	 <u>960</u>
NET POSITION				
Invested in capital assets, net of related debt	10,982,422	1,945,469	12,927,891	4,963
Restricted for:				
Non-expendable permanent endowment	250,326	-	250,326	-
Leave payout	220,238	-	220,238	-
Landfill closure/post closure	520,476	-	520,476	-
Capital projects	432,395	-	432,395	-
Other	3,726,233	-	3,726,233	-
Unrestricted	<u>1,723,913</u>	<u>-</u>	<u>1,723,913</u>	<u>80,148</u>
 Total net position	 <u>\$ 17,856,003</u>	 <u>\$ 1,945,469</u>	 <u>\$ 19,801,472</u>	 <u>\$ 85,111</u>

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Program Activities	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Operating		Governmental Activities	Primary Government		Component Units
		Charges for Services	Grants and Contributions		Capital Grants and Contributions	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 1,457,872	\$ 245,192	\$ 21,253	\$ (1,191,427)	\$ -	\$ (1,191,427)	
Public safety	1,032,621	125,583	200,709	(706,329)	-	(706,329)	
Public works	1,886,342	112,706	1,021,932	(381,907)	-	(381,907)	
Public health	79,438	870	57,633	(20,935)	-	(20,935)	
Social and economic services	116,492	9,715	-	(106,777)	-	(106,777)	
Culture and recreation	149,227	40,692	7,379	(36,954)	-	(36,954)	
Housing and community developer	-	-	-	-	-	-	
Interest on long-term debt	2,081	-	-	(2,081)	-	(2,081)	
Miscellaneous	155,221	-	-	(155,221)	-	(155,221)	
Total government activities	4,879,294	534,758	1,308,906	(2,601,631)	-	(2,601,631)	
Business-type activities							
Hospital	87,228	-	-	-	(87,228)	(87,228)	
Total primary government	\$ 4,966,522	\$ 534,758	\$ 1,308,906	(2,601,631)	(87,228)	(2,688,859)	
Component units							
Council on Aging	\$ 104,127	\$ 4,855	\$ 108,554	-	-	-	\$ 9,282
General revenues:							
Property taxes				2,918,713	-	2,918,713	-
Licenses and permits				4,550	-	4,550	-
Unrestricted federal/state shared revenues				506,658	-	506,658	-
Unrestricted grants and contributions				-	-	-	200
Unrestricted investment earnings				19,785	-	19,785	40
Miscellaneous				65,768	-	65,768	-
Gain on sale of capital assets				22,000	-	22,000	-
Transfers				(10,883)	-	(10,883)	-
Total general revenues				3,526,591	-	3,526,591	240
Change in net position				924,960	(87,228)	837,732	9,522
Net position, July 1, 2013				16,931,043	2,032,697	18,963,740	75,589
Net position, June 30, 2014				\$ 17,856,003	\$ 1,945,469	\$ 19,801,472	\$ 85,111

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
BALANCE SHEET
June 30, 2014

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Road	Law Enforcement	PILT		
ASSETS						
Cash and cash equivalents	\$ 348,784	\$ 1,741,272	\$ 444,998	\$ 415,196	\$ 2,899,018	\$ 5,849,268
Investments	1,100,000	-	-	-	21,206	1,121,206
Amounts held by trustee:						
Cash	-	127,254	-	-	70,593	197,847
Investments	-	-	-	-	758,445	758,445
Valuation of investments to fair value	-	-	-	-	(2,300)	(2,300)
Taxes/assessments receivable	69,563	27,177	38,727	-	188,274	323,741
Accounts/other receivables	947	-	-	-	6,954	7,901
Due from other funds	27,109	-	-	-	-	27,109
Due from other governments	4,211	-	28,510	-	146,029	178,750
Advances to other funds	67,000	-	-	-	-	67,000
Prepaid expense	575	-	-	-	-	575
Total assets	<u>\$ 1,618,189</u>	<u>\$ 1,895,703</u>	<u>\$ 512,235</u>	<u>\$ 415,196</u>	<u>\$ 4,088,219</u>	<u>\$ 8,529,542</u>
LIABILITIES						
Liabilities:						
Accounts payable	\$ 13,109	\$ 5,587	\$ 2,919	\$ -	\$ 50,793	\$ 72,408
Due to other funds	-	-	-	-	27,109	27,109
Due to other governments	-	-	-	-	5,437	5,437
Deposits payable	-	-	-	-	560	560
Revenues collected in advance	-	127,254	-	415,196	65,412	607,862
Advances from other funds	-	-	-	-	67,000	67,000
Total liabilities	13,109	132,841	2,919	415,196	216,311	780,376
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of tax revenues	69,563	27,177	38,727	-	188,274	323,741
Total deferred inflows of resources	69,563	27,177	38,727	-	188,274	323,741
FUND BALANCES						
Nonspendable:						
Prepays	575	-	-	-	-	575
Permanent endowment	-	-	-	-	250,326	250,326
Restricted for:						
Leave payout	-	-	-	-	220,238	220,238
Landfill closure/post closure	-	-	-	-	520,476	520,476
Capital projects	-	-	-	-	432,395	432,395
Special purposes	-	1,735,685	470,589	-	2,149,254	4,355,528
Committed to:						
Special purposes	-	-	-	-	112,433	112,433
Assigned	823,280	-	-	-	140	823,420
Unassigned	711,662	-	-	-	(1,628)	710,034
Total fund balances	<u>1,535,517</u>	<u>1,735,685</u>	<u>470,589</u>	<u>-</u>	<u>3,683,634</u>	<u>7,425,425</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,618,189</u>	<u>\$ 1,895,703</u>	<u>\$ 512,235</u>	<u>\$ 415,196</u>	<u>\$ 4,088,219</u>	<u>\$ 8,529,542</u>

See accompanying notes to the basic financial statements.

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

Total fund balance - governmental funds \$ 7,425,425

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 11,020,174

Certain revenues are not available to pay for current period expenditures and, therefore, are not reported in the governmental activities in the statement of net position 323,741

Long term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet

Due within one year	\$	(40,812)	
Due in more than one year		(9,883)	
Deferred charges		(862,642)	(913,337)

Net position of governmental activities **\$ 17,856,003**

POWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	Major Funds					Total
	General	Road	Law Enforcement	PILT	Other Governmental Funds	
REVENUES						
Taxes/assessments	\$ 835,051	\$ 393,039	\$ 417,156	\$ -	\$ 1,384,558	\$ 3,029,804
Licenses and permits	2,790	-	-	-	1,760	4,550
Intergovernmental revenues	93,100	887,058	36,795	265,751	959,099	2,241,803
Charges for services	178,622	8,554	94,936	-	167,809	449,921
Fines and forfeitures	73,191	-	-	-	7,326	80,517
Miscellaneous	32,235	1,593	993	-	25,267	60,088
Investment and royalty earnings	6,489	2,685	601	-	10,009	19,784
Total revenues	<u>1,221,478</u>	<u>1,292,929</u>	<u>550,481</u>	<u>265,751</u>	<u>2,555,828</u>	<u>5,886,467</u>
EXPENDITURES						
Current:						
General government	1,239,239	-	-	-	164,848	1,404,087
Public safety	36,311	-	693,902	-	184,702	914,915
Public works	-	791,937	-	-	628,321	1,420,258
Public health	55,708	-	-	-	22,968	78,676
Social and economic services	7,333	-	-	-	106,727	114,060
Culture and recreation	7,200	-	-	-	113,209	120,409
Housing and community development	-	-	-	-	-	-
Debt Service:						
Principal	-	-	-	-	48,701	48,701
Interest	-	-	-	-	2,081	2,081
Capital outlay	28,010	98,378	-	-	560,209	686,597
Miscellaneous	24,189	-	-	-	131,032	155,221
Total expenditures	<u>1,397,990</u>	<u>890,315</u>	<u>693,902</u>	<u>-</u>	<u>1,962,798</u>	<u>4,945,005</u>
Excess (deficiency) of revenues over expenditures	<u>(176,512)</u>	<u>402,614</u>	<u>(143,421)</u>	<u>265,751</u>	<u>593,030</u>	<u>941,462</u>

See accompanying notes to the basic financial statements.

POWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Major Funds</u>				<u>Other</u>		<u>Total</u>	
	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>	<u>PILT</u>	<u>Governmental</u>	<u>Funds</u>	<u>Governmental</u>	<u>Funds</u>
OTHER FINANCING SOURCES (USES):								
Sale of capital assets	4,400	22,000	-	-	-	-	-	26,400
Transfers In	268,883	59,358	194,119	-	173,712	-	-	696,072
Transfers out	(21,522)	(14,110)	(6,650)	(265,751)	(398,922)	-	-	(706,955)
Total other financing sources (uses)	<u>251,761</u>	<u>67,248</u>	<u>187,469</u>	<u>(265,751)</u>	<u>(225,210)</u>	<u>-</u>	<u>-</u>	<u>15,517</u>
Net change in fund balances	75,249	469,862	44,048	-	367,820	-	-	956,979
Fund balances - July 1, 2013	<u>1,460,268</u>	<u>1,265,823</u>	<u>426,541</u>	<u>-</u>	<u>3,315,814</u>	<u>-</u>	<u>-</u>	<u>6,468,446</u>
Fund balances - June 30, 2014	<u>\$ 1,535,517</u>	<u>\$ 1,735,685</u>	<u>\$ 470,589</u>	<u>\$ -</u>	<u>\$ 3,683,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,425,425</u>

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds \$ 956,979

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

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

Capital assets purchased	\$ 686,597	
Depreciation expense	(608,815)	77,782

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

Gain on the disposal of capital assets	22,000	
Proceeds from the sale of capital assets	(26,400)	(4,400)

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

Donated capital assets	17,760	
Change in long-term receivables (deferred revenue)	(111,090)	(93,330)

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

Long-term loan/contract principal payments		48,701
--	--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Accrued compensated absences	(32,704)	
Change in landfill closure/post-closure care liability	(28,068)	<u>(60,772)</u>

Change in net position of governmental activities **\$ 924,960**

**POWELL COUNTY, MONTANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
Taxes:				
Property taxes	\$ 627,043	\$ 627,043	\$ 656,225	\$ 29,182
Local option taxes	155,000	155,000	178,826	23,826
Licenses and permits				
Alcoholic beverage licenses	-	-	-	-
Building permits	600	600	1,850	1,250
Other permits	1,000	1,000	940	(60)
Intergovernmental revenue				
Federal grants	700	700	-	(700)
Federal payments in lieu of taxes (P.I.L.T.)	1,250	1,250	1,880	630
State grants	-	-	-	-
State shared revenues	94,053	94,053	91,220	(2,833)
Local P.I.L.T.	-	-	-	-
Charges for services				
General government	150,943	150,943	155,407	4,464
Public safety	18,000	18,000	22,370	4,370
Public works	-	-	-	-
Public health	3,000	3,000	845	(2,155)
Fines and forfeitures				
Justice court	75,000	75,000	71,870	(3,130)
District court	1,450	1,450	1,321	(129)
Miscellaneous				
	22,700	22,700	32,235	9,535
Investment and royalty earnings				
	10,000	10,000	6,489	(3,511)
Total revenues	<u>1,160,739</u>	<u>1,160,739</u>	<u>1,221,478</u>	<u>60,739</u>
EXPENDITURES				
Current:				
General Government:				
Executive services				
Personal services	131,970	134,838	134,778	60
Supplies/services/materials, etc	28,500	36,000	27,323	8,677
Capital outlay	134,035	126,535	-	126,535
Judicial services				
Personal services	211,431	211,431	203,658	7,773
Supplies/services/materials, etc	32,810	37,807	17,855	19,952
Capital outlay	6,000	1,003	-	1,003
Administrative services				
Personal services	6,864	6,864	4,500	2,364
Supplies/services/materials, etc	-	-	431	(431)
Financial services				
Personal services	333,782	332,783	298,808	33,975
Supplies/services/materials, etc	103,750	103,750	83,818	19,932
Capital outlay	30,000	30,000	28,010	1,990

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
EXPENDITURES - continued				
Elections				
Personal services	2,335	2,335	2,351	(16)
Supplies/services/materials, etc	32,750	32,750	25,096	7,654
Records administration				
Supplies/services/materials, etc	1,500	1,500	147	1,353
Legal services				
Personal services	233,205	233,205	218,839	14,366
Supplies/services/materials, etc	25,550	25,550	17,415	8,135
Facilities administration				
Personal services	73,567	73,567	48,424	25,143
Supplies/services/materials, etc	162,250	162,250	94,727	67,523
Capital outlay	242,970	242,970	-	242,970
Public school administration				
Personal services	51,584	51,584	51,479	105
Supplies/services/materials, etc	9,400	9,400	4,791	4,609
Other governmental servcies				
Supplies/services/materials, etc	5,650	5,650	4,799	851
Probation and parole				
Supplies/services/materials, etc	35,350	35,350	2,845	32,505
Coroner services				
Personal services	30,201	30,201	30,132	69
Supplies/services/materials, etc	20,100	20,100	3,334	16,766
Public health services				
Supplies/services/materials, etc	47,886	47,886	43,396	4,490
Mental health center				
Supplies/services/materials, etc	30,000	30,000	12,312	17,688
Welfare				
Supplies/services/materials, etc	9,000	9,000	3,733	5,267
Veteran's services				
Supplies/services/materials, etc	8,850	8,850	3,600	5,250
Library services				
Supplies/services/materials, etc	7,200	7,200	7,200	-
Parks				
Supplies/services/materials, etc	1,000	1,000	-	1,000
Miscellaneous				
	<u>23,880</u>	<u>23,880</u>	<u>24,189</u>	<u>(309)</u>
Total expenditures	<u>2,073,370</u>	<u>2,075,239</u>	<u>1,397,990</u>	<u>677,249</u>
Excess (deficiency) of revenues over expenditures	<u>(912,631)</u>	<u>(914,500)</u>	<u>(176,512)</u>	<u>737,988</u>

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	4,400	4,400
Transfers in	300,926	310,926	268,883	(42,043)
Transfers out	<u>(52,526)</u>	<u>(52,526)</u>	<u>(21,522)</u>	<u>31,004</u>
Total other financing sources (uses)	<u>248,400</u>	<u>258,400</u>	<u>251,761</u>	<u>(6,639)</u>
Net change in fund balance	<u>\$ (664,231)</u>	<u>\$ (656,100)</u>	75,249	<u>\$ 731,349</u>
Fund balances - July 1, 2013			<u>1,460,268</u>	
Fund balances - June 1, 2014			<u>\$ 1,535,517</u>	

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
ROAD FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
REVENUES				
Taxes:				
Property taxes	\$ 371,333	\$ 371,333	\$ 393,039	\$ 21,706
Federal grants			53,145	53,145
Federal payments in lieu of taxes (P.I.L.T.)	456,953	469,044	769,856	300,812
State grants	825	825	822	(3)
State shared revenues	63,235	63,235	63,235	-
Charges for services				
Public works	3,000	3,000	8,554	5,554
Miscellaneous				
Investment and royalty earnings	<u>2,000</u>	<u>2,000</u>	<u>2,685</u>	<u>685</u>
Total revenues	<u>897,346</u>	<u>909,437</u>	<u>1,292,929</u>	<u>383,492</u>
EXPENDITURES				
Current:				
Public Works				
Personal services	465,802	477,893	422,648	55,245
Supplies/services/materials, etc	900,309	900,309	369,289	531,020
Capital expenditures	<u>332,315</u>	<u>332,315</u>	<u>98,378</u>	<u>233,937</u>
Total expenditures	<u>1,698,426</u>	<u>1,710,517</u>	<u>890,315</u>	<u>820,202</u>
Excess (deficiency) of revenues over expenditures	<u>(801,080)</u>	<u>(801,080)</u>	<u>402,614</u>	<u>1,203,694</u>
OTHER FINANCING SOURCES (USES)				
Gain on sale of capital assets	-	-	22,000	22,000
Transfers in	119,641	119,641	59,358	(60,283)
Transfers out	<u>(14,110)</u>	<u>(14,110)</u>	<u>(14,110)</u>	<u>-</u>
Total other financing sources (uses)	<u>105,531</u>	<u>105,531</u>	<u>67,248</u>	<u>(38,283)</u>
Net change in fund balance	<u>\$ (695,549)</u>	<u>\$ (695,549)</u>	469,862	<u>\$ 1,165,411</u>
Fund balances - July 1, 2013			<u>1,265,823</u>	
Fund balances - June 1, 2014			<u>\$ 1,735,685</u>	

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
LAW ENFORCEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
REVENUES				
Taxes:				
Property taxes	\$ 406,528	\$ 406,528	\$ 417,156	\$ 10,628
Intergovernmental revenue				
Federal payments in lieu of taxes (P.I.L.T.)	400	400	662	262
State shared revenues	36,133	36,133	36,133	-
Charges for services				
Public safety	91,500	91,500	94,936	3,436
Miscellaneous				
	-	-	993	993
Investment and royalty earnings	<u>750</u>	<u>750</u>	<u>601</u>	<u>(149)</u>
Total revenues	<u>535,311</u>	<u>535,311</u>	<u>550,481</u>	<u>15,170</u>
EXPENDITURES				
Current:				
Public Safety				
Personal services	655,657	655,657	519,002	136,655
Supplies/services/materials, etc	201,313	201,313	174,900	26,413
Capital expenditures	<u>63,932</u>	<u>63,932</u>	<u>-</u>	<u>63,932</u>
Total expenditures	<u>920,902</u>	<u>920,902</u>	<u>693,902</u>	<u>227,000</u>
Excess (deficiency) of revenues over expenditures	<u>(385,591)</u>	<u>(385,591)</u>	<u>(143,421)</u>	<u>242,170</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	274,358	274,358	194,119	(80,239)
Transfers out	<u>(6,750)</u>	<u>(6,750)</u>	<u>(6,650)</u>	<u>100</u>
Total other financing sources (uses)	<u>267,608</u>	<u>267,608</u>	<u>187,469</u>	<u>(80,139)</u>
Net change in fund balance	<u>\$ (117,983)</u>	<u>\$ (117,983)</u>	44,048	<u>\$ 162,031</u>
Fund balances - July 1, 2013			<u>426,541</u>	
Fund balances - June 1, 2014			<u>\$ 470,589</u>	

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
PILT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amount</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
REVENUES				
Intergovernmental revenue				
Federal payments in lieu of taxes (P.I.L.T.)	\$ 265,751.00	\$ 265,751.00	\$ 265,751.00	\$ -
Total revenues	<u>265,751</u>	<u>265,751</u>	<u>265,751</u>	<u>-</u>
EXPENDITURES				
Current				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>265,751</u>	<u>265,751</u>	<u>265,751</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(265,751)</u>	<u>(265,751)</u>	<u>(265,751)</u>	<u>-</u>
Total other financing sources (uses)	<u>(265,751)</u>	<u>(265,751)</u>	<u>(265,751)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances - July 1, 2013			<u>-</u>	
Fund balances - June 1, 2014			<u>\$ -</u>	

See accompanying notes to the basic financial statements.

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

	Business-type Activities
	Hospital
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ -
Noncurrent Assets:	
Capital assets:	
Land	2,500
Buildings	3,330,677
Less: accumulated depreciation	<u>(1,387,708)</u>
Total assets	<u>\$ 1,945,469</u>
LIABILITIES	
Current Liabilities:	<u>\$ -</u>
NET POSITION	
Invested in capital assets, net of related debt	<u>1,945,469</u>
Total net position and liabilities	<u>\$ 1,945,469</u>

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	Business-type Activities
	Hospital
OPERATING REVENUES	\$ -
OPERATING EXPENSES:	
Depreciation	87,228
Loss from operations	(87,228)
NONOPERATING REVENUES (EXPENSES)	-
Loss before transfers	(87,228)
Transfers out	-
Change in net position	(87,228)
Total net position - July 1, 2013	2,032,697
Total net position - June 30, 2014	\$ 1,945,469

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

	Business-type Activities
	Hospital
CASH FLOWS FROM OPERATING ACTIVITIES	\$ -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES	-
Net decrease in cash and cash equivalents	-
Cash and cash equivalents - July 1, 2013	-
Cash and cash equivalents - June 30, 2014	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Income from operations	\$ (87,228)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	87,228
Net cash provided by operating activities	\$ -

See accompanying notes to the basic financial statements.

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

	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash, cash equivalents and investments	\$ 948,593	\$ 107,282	\$ 4,291,096
Tax/assessment receivable	-	-	749,816
Total assets	\$ 948,593	\$ 107,282	\$ 5,040,912
LIABILITIES			
Warrants payable	\$ -	\$ -	\$ 705,252
Protested taxes and related interest			462,940
Due to other governments	-	-	3,122,904
Total liabilities	\$ -	\$ -	\$ 4,291,096
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of tax revenues			\$ 749,816
NET POSITION			
Held in trust for County and other governments	948,593	107,282	
Total net position	\$ 948,593	\$ 107,282	

See accompanying notes to the basic financial statements.

**POWELL COUNTY, MONTANA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2014**

	Investment Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Interest	\$ 2,631	\$ 545
Contributions to investment trust fund	99,707	-
Total additions	102,338	545
DEDUCTIONS		
Distributions from investment trust fund	782	545
Change in net position	101,556	-
Net position - July 1, 2013	847,037	107,282
Net position - June 30, 2014	\$ 948,593	\$ 107,282

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Powell County, Montana is a political subdivision of the State of Montana governed by a three member Board of Commissioners duly elected by the registered voters of the County. The County utilizes the commission form of government. The accompanying financial statements present the primary government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government, but is financially accountable to, or fiscally dependent upon, the primary government or their omission from the financial statements would be misleading.

School Districts, Fire Districts, and other independent taxing units are reflected only in the combined balance sheet as agency funds, since the County is responsible, by law, for the collection of taxes and/or the maintenance of cash funds for these entities.

1. Blended Component Units

Powell County participated in a joint venture with the City of Deer Lodge in the operation of the City-County Airport. The airport is financially dependent on the County and provides services to the County and its residents. The County Commissioners participate in the management of the airport and can significantly influence its operations. Therefore, the City-County Airport is considered a component unit of Powell County. All airport operations are reported within a special revenue fund of the County and the related long-term debt and capital assets are reported with the County's general long-term debt and general fixed assets, respectively.

Powell County also includes as blended component units the Fair Board, Planning Board and the two Solid Waste Management Districts because of significant influence by the County Commissioners and financial dependency on the County.

2. Discretely Presented Component Unit

The Powell County Executive Board on Aging is a nonprofit corporation under Internal Revenue Code Section 501(c)(3). The entity coordinates the delivery of community-based care and services for Senior Citizens, including but not limited to, home health care, homemaker services, foster home care, nutrition, and transportation. The Board on Aging is managed by a board appointed by the Powell County Council of Commissioners. Powell County has the ability to impose its will on the Board as the Executive Director is appointed by the Council of Commissioners and is paid as a county employee. Powell County also provides financial support to the nonprofit entity. The discretely presented component unit has a June 30th year-end. The Executive Board on Aging does not issue a separate report.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

3. Related Organizations

The County's officials are also responsible for appointing the members of the boards of other organizations but the County's accountability does not extend beyond making the appointments. There are no material related party transactions between the County and these other organizations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements and budgetary basis financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when cash is received by the government. Taxes and assessments receivable remaining uncollected at year end are offset by deferred revenue since they are not available to pay liabilities of the current period.

Property taxes are levied in September of each year, based on assessments as of the prior January 1. Taxes are usually billed in October and are payable 50% on November 30 and 50% on May 31.

The government reports the following major governmental funds:

General Fund - This is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Road Fund - This fund is used for the maintenance of the roads in Powell County.

Law Enforcement Fund - This fund is used for the safety and other law enforcement needs of the County.

PILT Fund – This fund is used to account for federal payments in lieu of taxes (PILT).

The government reports the following major proprietary fund:

Hospital Enterprise Fund - This fund is used account for the rental activity of the county owned hospital building.

The government reports the following major fiduciary funds:

Agency Funds – These funds are used to account for taxes and fees collected by the County on behalf of other governments.

Private Purpose Trust Funds – These funds are used to account for resources legally held in trust for use by another government, individual, or organization as identified by the donor. The use of these funds may be restricted to only the interest earned on the investment of the principal or the entire amount may be used in accordance with the terms of the donor.

Investment Trust Funds - These funds are used to account for individual investment accounts held on behalf of the school districts in Powell County. Investments are held in the form of Certificates of Deposit. These funds are also used to account for external entities that pool a portion of their investments in money market accounts

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

with Powell County. These entities include the conservation district, the City of Deer Lodge fire department capital improvement fund, and the high school and elementary districts.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governments' enterprise functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

Amounts reported as program revenues include: 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the government's internal service funds are charges to customers for services provided. Operating expenses for enterprise funds and internal service funds include the cost of providing such services and the depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand and time deposits and short-term investments with original maturity dates of three months or less from the date of acquisition.

State statutes authorize the County to invest in direct obligations of the U.S. Government, such as U.S. Treasury bills and notes and U.S. Government securities as defined by law, repurchase agreements and the State Short-Term Investment Pool (STIP).

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

The County invests funds on behalf of external entities. For some of the entities, specific certificates of deposit are held for the benefit of the external entity. For other external entities, the funds are mixed with County funds in a money market account. These investments are reported in the investment trust fund.

Cash for agency and trust funds, both internal and external, are held in checking, savings, and money market accounts. Interest earned on the amounts held in savings is credited to the County funds and are not allocated to the agency and trust funds. Therefore, these are not reported in the investment trust fund.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal yearend are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Advances between funds are not available for appropriation and are not expendable available financial resources.

Accounts receivables are shown net of allowance for uncollectible. Property tax receivables are offset by deferred revenue accounts since they are not available to pay liabilities of the current period. In the Government-Wide Financial Statement, however, these amounts are reported as revenues in the period they are levied. All property tax levies are set at the time of the adoption of the annual budget. The real estate taxes are payable in two installments, the first due by November 30 and the second by May 31. Personal property taxes are assessed in April or May and are payable within 30 days of the issuance of the notice.

3. Inventories and Prepaid Items

Inventories are recorded as expenditures when purchased.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Restricted Assets

These assets represent cash and cash equivalents restricted for use to repay current debt, amounts held in trust for landfill closure and post-closure care costs, and amounts held in a permanent endowment.

5. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of 4 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

market value at the date of donation. Infrastructure obtained or constructed prior to the implementation of GASB 34 in the fiscal year that ended June 30, 2004 is not retroactively reported. Infrastructure obtained or constructed subsequent to that date is reported in the government-wide financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and infrastructure	10 - 40
Building improvements	20 - 40
Vehicles	5
Machinery and equipment other than vehicles	5 - 20

6. Recently Issued and Adopted Accounting Pronouncements

In fiscal year 2014, the county implemented the following GASB statement:

Statement No. 65, “*Items Previously Reported as Assets and Liabilities*” – clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources, and as revenues and expenditures. As a result of implementing this statement, the county changed the classification of certain liabilities to deferred inflows.

7. Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. The government-wide statement of net position, proprietary fund statement of net position, and governmental fund balance sheet report a separate section for deferred inflows of resources. Deferred inflows of resources may be disclosed on the face of the financial statements, in the notes to the financial statements, or a combination of both.

8. Compensated Absences

As required by State law, the County allows employees to accumulate earned but unused vacation and sick leave benefits. Unused vacation leave benefits are 100 percent payable upon termination and ¼ of unused sick leave benefits are payable upon termination. Such amounts are reported as liabilities in the appropriate governmental activity in the government-wide statements. Expenditures for unpaid vacation and sick leave benefits are recorded when paid in the governmental funds on the modified accrual basis of accounting. The governmental funds utilized to

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

liquidate these obligations are the General Fund, Special Revenue Funds, and Compensated Absence Liability Fund.

Vacation Leave

Employees earn vacation leave at the rate of 15 days per year for the first ten years. Between 10 and 20 years, employees earn vacation leave at an increasing rate, reaching 24 days per year after 20 years. The maximum allowable accumulation of vacation leave is twice the number of days earned annually as of the last calendar year.

Sick Leave

Employees earn sick leave at the rate of 12 days per year. There is no limit on the accumulation of sick leave.

9. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond issue using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such grantors or higher levels of government), through constitutional provisions or enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose, positive amounts are reported only in the general fund.

Through the annual budgeting process, and any subsequent budget amendment procedures, fund balances are restricted through enabling legislation (Montana Statute) that authorizes the County Commissioners to assess, levy, charge or otherwise require payments from external resource providers.

Fund balance commitments occurred through passage of a resolution to commit fund balances to specific purposes.

The assigned fund balance in the general fund consists of the fiscal year 2014 budgeted cash reserve (\$696,745) insurance proceeds from an employee embezzlement case (\$126,535). This embezzlement involved motor vehicle receipts collected largely on behalf of other entities; therefore, the County has left the some of the proceeds intact pending any claims made by the other entities.

11. Interfund Transfers

During the course of operations, the County has several transactions between funds to finance operations and provide services. The principle purposes of interfund transfers include: to transfer excess funds to non-levied funds for operations and capital improvements or maintenance, to cover negative cash balances, to fund dump closure and post-closure costs, or to meet matching requirements for grants obtained by the County.

12. On-behalf Payments for Fringe Benefits

On-behalf payments for fringe benefits are direct payments made by one entity to a third-party recipient for the employees of another, legally separate entity. On-behalf payments include pension plan contributions. On-behalf payments are not recorded as revenue. (See Note 4.H).

13. Use of Estimates

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

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The government fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net governmental activities* as reported in the government-wide statement of net position. We believe none of these adjustments need further explanation.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. We believe none of these adjustments need further explanation.

NOTE 3. COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The County adopts an annual budget for all of its funds in accordance with Title 7, Chapter 6, Part 40 of the Montana Code Annotated. Statute requires the adoption of a preliminary budget, public hearings on the preliminary budget, and the final adoption of the budget by the later first Thursday after the first Tuesday in September or within 30 calendar days of the receipt of the certified taxable valuations from the department of revenue. The County must also submit a copy of the final budget to the department of administration by the later of October 1 or 60 days after the receipt of taxable values from the department of revenue.

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

The Board of County Commissioners has the sole authority to approve budget transfers and budget amendments. County officials may not expend in excess of their existing budget authority. The Board of County Commissioners may, if appropriate, transfer existing budget authority within a fund and increase departmental authority. Per MCA 7-6-4005, expenditures made, liabilities incurred, or warrants issued in excess of a department's total budget appropriation, as originally determined or as later revised, are not a liability of the County, but the official authorizing or incurring the expenditure is liable for it personally and upon their official bond.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

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

NOTE 4. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash in treasury may include cash and cash items; demand, time, savings and fiscal agent deposits; investments in the state Short-Term Investment Pool (STIP); and direct obligations of the United States Government. Investments are stated at fair market value.

Deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had a bank balance of \$7,258,818 at June 30, 2014. Of the bank balance, \$750,000 was covered by Federal Depository Insurance, \$3,843,941 was collateralized by the pledging financial institution's trust department or agent in Powell County's name and the balance of \$2,664,877 was uninsured and uncollateralized.

The bank balance of the Council on Aging, a discretely presented component unit, at June 30, 2014 was \$81,426 all of which was covered by Federal Depository insurance.

Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to the County. Montana statute requires that the County obtain securities for the uninsured portion of the deposit as follows:

- 1) Securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or
- 2) Securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%.

The State statutes do not specify in whose custody or name the collateral is to be held.

The amount of collateral held for County deposits at June 30, 2014 was in compliance with the requirements of state statutes.

Investments - The County has a written investment policy that follows state statutes which authorize the County to invest in direct obligations of the United States Government and securities issued by agencies of the United States, repurchase agreements, and the State Short-Term Investment Pool (STIP).

Investments are reported at fair value. The State Short-Term Investment Pool operates in accordance with State laws and regulations and is administered by the State Department of Administration. The County considers investments in STIP to be cash equivalents.

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

As of June 30, 2014, Powell County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 1,483,814	0.47
Federal Home Loan Bank Notes	101,520	0.08
Federal National Mortgage Association Notes	230,743	0.43
Federal Home Mortgage Corporation Notes	69,865	0.12
U.S. Treasury Notes	34,098	0.08
Federal Farm Credit Bank Notes	69,594	0.13
	<u>\$ 1,989,634</u>	<u>1.31</u>

B. Taxes and Assessments Receivable

Property tax levies were set in September 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 State Department of Revenue based on market values. A revaluation of property is required to be completed on a periodic basis. Taxable value is defined by State Statute as a fixed percentage of market value.

Real property taxes and special assessments are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes and assessments become delinquent and a lien may be placed on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set the prior August. These taxes become delinquent 30 days after billing.

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

The County is permitted by State Statute to levy taxes up to certain fixed limits for various purposes. The taxes levied by the county for the year ended June 30, 2014 were within legal limits. The tax levies were based upon a taxable valuation of \$14,535,260.

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

Interfund Balances and Transfers

At June 30, 2014, the following interfund balances were owed between funds.

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
TSEP CG-15-753 Fund	General Fund	\$ 5,013	To cover negative cash
CTEP Fund	General Fund	20,468	To cover negative cash
NRDP 600213 Fund	General Fund	1,628	To cover negative cash
		<u>\$ 27,109</u>	

Interfund transfers were made to transfer unrestricted resources to non-levied funds for operations and capital improvements or maintenance, to fund dump closure and post-closure costs, or to meet grant matching requirements.

Government interfund transfers during the year ended June 30, 2014, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major governmental funds:	\$ 268,883	\$ 21,522
General	59,358	14,110
Road	194,119	6,650
Law Enforcement	-	265,751
PILT	<u>173,712</u>	<u>398,922</u>
Total transfers among county funds	696,072	706,955
Conservation District	<u>10,883</u>	-
Total transfers	<u>\$ 706,955</u>	<u>\$ 706,955</u>

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

D. Capital Assets

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

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
Governmental activities:				
Non-depreciable:				
Land	\$ 305,489	\$ -	\$ -	\$ 305,489
Intangibles	-	26,635	-	26,635
Construction in progress	1,126,985	151,145	(167,603)	1,110,527
Total non-depreciable assets	1,432,474	177,780	(167,603)	1,442,651
Depreciable:				
Buildings	2,231,620	6,418	-	2,238,038
Improvements other than buildings	2,165,041	70,298	-	2,235,339
Machinery and equipment	4,160,012	161,813	(143,660)	4,178,165
Infrastructure	7,193,235	451,251	-	7,644,486
Total depreciable assets	15,749,908	689,780	(143,660)	16,296,028
Less accumulated depreciation				
Buildings	(1,130,664)	(60,155)	-	(1,190,819)
Improvements other than buildings	(317,021)	(50,606)	-	(367,627)
Machinery and equipment	(3,308,216)	(233,968)	143,660	(3,398,524)
Infrastructure	(1,497,449)	(264,086)	-	(1,761,535)
Total accumulated depreciation	(6,253,350)	(608,815)	143,660	(6,718,505)
Net depreciable assets	9,496,558	80,965	-	9,577,523
Governmental activities capital assets, net	<u>\$ 10,929,032</u>	<u>\$ 258,745</u>	<u>\$ (167,603)</u>	<u>\$ 11,020,174</u>

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
Business-type activities:				
Non-depreciable:				
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Depreciable:				
Buildings		-	-	-
Less accumulated depreciation				
Buildings	(1,300,479)	(87,228)	-	(1,387,707)
Net depreciable assets	(1,300,479)	(87,228)	-	(1,387,707)
Business-type activities capital assets, net	<u>\$ (1,297,979)</u>	<u>\$ (87,228)</u>	<u>\$ -</u>	<u>\$ (1,385,207)</u>

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

Increases in the governmental activities capital assets consisted of the following:

Capital assets purchased/constructed	\$ 704,358
Reclass from construction in progress	163,202
	\$ 867,560

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 46,871
Public safety	114,716
Public works	417,887
Public health	761
Social and economic services	-
Culture and recreation	28,580
Total depreciation expense - Governmental activities	\$ 608,815
Business-type activities:	
Hospital	\$ 87,228
Total depreciation expense - Business-type activities	\$ 87,228

E. Operating Leases

The following summarizes property owned by the County which is leased to other governments or entities:

Lessee	Description of Leased Property	Duration of Lease	Minimum Annual Payment
Montana DPHHS	Office Space	7/1/08 - 6/30/15	\$ 9,564
Montana Dept. of Labor	Office Space	7/1/09 - 6/30/13	1,559
Montana Dept. of Revenue	Office Space	7/1/11 - 6/30/15	6,663
Kevin & Randy Perrault	Platen Press Bldg.	4/1/12 - 3/31/14	8,400
Powell County Ambulance	Ambulance Barn		\$ 3,600

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

F. Long-term Debt

The County has the following long-term debt:

1. Notes payable – Governmental Activities:

<u>Purpose</u>	<u>Original Amount</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2014</u>	<u>Date of Final Payment</u>
Airport	\$ 20,750	2/28/2006	2.500%	\$ 4,150	2/28/2016
Airport	22,600	9/12/2006	3.625%	4,520	2/28/2016
Airport	13,870	10/30/2009	1.625%	6,935	2/28/2019
Bridge	250,000	5/10/2007	1.250%	22,147	5/9/2014
	<u>\$ 307,220</u>			<u>\$ 37,752</u>	

2. Closure and Post Closure Care Cost

State and federal laws and regulations require Powell County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and post closure care costs are recognized to the extent that the related obligation is to be liquidated with available financial resources. The post closure care costs will not be paid with expendable, available resources and will not be paid until the date the landfill stops accepting waste. Powell County reports the amounts to be provided for post-closure care costs in the statement of net position. The entire amount is shown as non-current liabilities due in more than one year.

The total estimated current cost of closure and post-closure care as of the balance sheet date is \$626,761 approximately 73% of the total estimated post closure cost of \$858,577. These amounts are based on what it would cost to perform all closure and post-closure care in 2014. The percentage of landfill capacity used to date is approximately 73%. Powell County expects to close the landfill in the year 2028. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Powell County is not currently required by state or federal regulations to make annual contributions to finance closure and post closure care.

The County has set up a third-party trust to assure financial requirements are met. The fair market value of the assets held in the trust was \$511,000 on June 30, 2014.

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

3. Changes in Long-term Liabilities

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

	Balance 6/30/2013	Additions	Deductions	Balance 6/30/2014	Due Within One Year
Governmental Activities:					
Notes payable	\$ 86,453	\$ -	\$ (48,701)	\$ 37,752	\$ 27,869
Compensated absences	216,120	51,290	(18,586)	248,824	12,943
Landfill closure/ post-closure costs	598,693	28,068	-	626,761	-
Total governmental activities	<u>\$ 901,266</u>	<u>\$ 79,358</u>	<u>\$ (67,287)</u>	<u>\$ 913,337</u>	<u>\$ 40,812</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2014 are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	27,869	490
2016	5,722	224
2017	1,387	68
2018	1,387	45
2019	1,387	23
	<u>\$ 37,752</u>	<u>\$ 850</u>

G. Other Post-Employment Benefits

1. Post-Employment Healthcare Plan

GASB Statement 45 requires the recording of an expense and liability for “other post-employment benefits” (OPEB) provided by governmental entities.

The County allows its retired employees to continue to participate in its group health insurance plan at a premium rate that does not cover all of the related healthcare costs. This results in an OPEB referred to as an “implicit rate subsidy.” The County has determined that this “implicit rate subsidy” is immaterial, and therefore, has not recorded a long-term liability for OPEB on the modified accrual basis for governmental funds or on the accrual basis for proprietary funds and the Government-wide Statements of Net Position and Activities.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

H. State Wide Retirement Plans

The County participates in the following retirement plans:

1. Public Employees' Retirement System (P.E.R.S.)

All the County's employees that work the equivalent of 120 working days in any fiscal year or more, except the County School Superintendent, the County Sheriff and the Sheriff's Deputies, participate in the Montana Public Employees' Retirement System (P.E.R.S.), a cost-sharing multiple-employer retirement system.

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

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

The Public Employees' Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERD. That report may be obtained by writing to PERD at 1712 Ninth Avenue, P.O. Box 200131, Helena, MT 59620-0131, or by calling 406-444-3154.

The State of Montana, on-behalf of Powell County, contributed .10% of the covered wages to the Public Employees Retirement System. The financial statements do not reflect the related revenue and expenditure for this on-behalf payment

2. Teachers' Retirement System (T.R.S.)

The County School Superintendent participates in the Teachers' Retirement System (T.R.S.), a cost sharing multiple-employer retirement system.

The County School Superintendent and any other teachers employed by the Office of the County Superintendent participate in T.R.S. Members who retire (1) at or after age 60 with five years of creditable service, or (2) with 25 or more years of creditable service are entitled to a retirement benefit, payable monthly for the life of the member and/or beneficiary. The benefit amount is the number of years of creditable service divided by 60, and multiplied by the average final compensation (AFC). The AFC is the average of the earned compensation of a member during the three consecutive years of full time service which yield the highest average.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

Benefits fully vest after five years of service. Vested employees may retire at age 50 if they have at least 5 years of service and receive reduced benefits. T.R.S. also provides death and disability benefits, with amounts determined by the State of Montana.

The State of Montana, on-behalf of Powell County, contributed 2.49% of the covered wages to the Teachers' Retirement System. The financial statements do not reflect the related revenue and expenditure for this on-behalf payment.

The Teachers' Retirement System Board issues a publicly available financial report that includes financial statements and required supplementary information for T.R.S. That report may be obtained by writing to T.R.S. at P.O. Box 200139, 1500 Sixth Avenue, Helena, MT 59620-0139 or by calling 406-444-3134.

3. Sheriff's Retirement System (SRS)

The Sheriffs' Retirement System (SRS), established in 1974 and governed by Title 19, Chapter 7 of the Montana Code Annotated, covers all persons employed as sheriffs. SRS is mandatory multiple-employer, cost sharing benefit plan administered by the Public Employees' Retirement Division (PERD).

SRS offers retirement, disability and death benefits to plan members and their beneficiaries. Minimum years of service are 20 regardless of age for normal retirement benefit. The service retirement is calculated as follows: 2.0834% of the final salary for each year of creditable service; members with more than 24 years of service shall receive an additional 1.35% of the final average salary for each year of creditable service in excess of 24 years. After 10 years of service, an employee has a vested right to service retirement benefits. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State Legislature. The Sheriffs' Retirement System (SRS) financial information is reported in the Public Employees' Retirement Comprehensive Annual Financial Report for the fiscal year end. That report may be obtained by writing to PERD at 1712 Ninth Avenue, PO Box 200131, Helena, MT 59620-0131, or by calling (406) 444-3154.

4. Funding Policy and Annual Contributions

The State legislature has the authority to establish and amend contribution rates to the plans. The County made the following contributions into the plans for the year ended June 30, 2014:

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

	PERS	TRS	SRS
Required member contributions	7.900%	8.150%	9.245%
Required employer contributions	8.070%	8.470%	10.115%
On-behalf (State) contributions	0.10%	2.49%	-
Covered payroll - regular	\$ 1,413,193	\$ 36,729	\$ 204,830
Covered payroll - working retirees	\$ 12,910	\$ -	\$ -
Contributions:			
Employee	\$ 109,583	\$ 2,993	\$ 18,937
Employer	\$ 106,254	\$ 3,111	\$ 20,719
On-behalf (State) contributions	\$ 1,413	\$ 896	\$ -

	Year Ending	Contributions Required	Contributions Made	Percentage Contributed
PERS	6/30/2012	\$ 91,239	\$ 91,239	100%
	6/30/2013	\$ 91,638	\$ 91,638	100%
	6/30/2014	\$ 106,254	\$ 106,254	100%
TRS	6/30/2012	\$ 2,652	\$ 2,652	100%
	6/30/2013	\$ 2,689	\$ 2,689	100%
	6/30/2014	\$ 3,111	\$ 3,111	100%
SRS	6/30/2012	\$ 40,216	\$ 40,216	100%
	6/30/2013	\$ 33,492	\$ 33,492	100%
	6/30/2014	\$ 20,719	\$ 20,719	100%

I. Services Provided to Other Governments

Powell 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 collection for various taxing jurisdictions. The County also serves as a bank for such agencies as school 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 or investment trust funds. The County Treasurer periodically remits funds collected for incorporated cities and towns to those entities. The County has not recorded any service charges for the services it provides other governmental entities.

POWELL COUNTY, MONTANA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2014

J. Joint Ventures

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose.

City County Airport

The City-County Airport is owned and operated jointly by Powell County and the City of Deer Lodge. Powell County accounts for the operation of the City-County Airport within a Special Revenue Fund.

The County's portion of tax and tax-related revenues, the City's contributions, and airport user fees are reported within the Airport Fund, a Special Revenue Fund. All operating expenditures are reported in this special revenue fund.

The City-County Airport is administered by a six-member board, comprised of three members from the County and three members from the City governing boards. The original Airport operating budget is approved by the controlling governments, with the City budgeting for its share within its budget, and the County including the entire operation within its budget. The City contributes \$1,000 annually towards operating revenues of the Airport and the County contributed 0.50 mills in the fiscal year ended June 30, 2014. In addition, airport users are charged a user fee. Expenditures of the Airport include payments for liability insurance titles and lighting maintenance.

The following is a summary of the City-County Airport's operation for the fiscal year ended June 30, 2014:

Special Revenue Fund	
Total assets	\$ 60,326
Total liabilities	\$ (615)
Total deferred inflows	(1,337)
Total equity	<u>\$ 58,374</u>
Total revenues	\$ 66,243
Total expenses	(94,331)
	<u>\$ (28,088)</u>

K. Risk Management

The County faces a 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. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, and professional liabilities.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

The County participates in two statewide public risk pools operated by the Montana Association of Counties for workers' compensation and for property and casualty liability coverage. Given the lack of coverage available, the County has no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years. The Comprehensive Insurance Fund makes a special-purpose property tax levy for premiums.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

In 1985 the County joined together with other Montana Counties and established a workers' compensation plan and a tort liability plan, both public entity risk pools currently operating as common risk management and insurance programs for the member governments. The liability limits are \$1,500,000 per occurrence wages and an annual premium for tort liability. This amount is allocated between the County's Governmental Funds based on total appropriations. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. However, the workers' compensation plan issued bonds to immediately finance the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service. The County's share is \$33,395; based on the plan's current financial position, the County does not expect to make any payment on these notes.

L. Commitments/ Contingencies

1. Litigation

U.S. Coast Guard Claim for Reimbursement

This case involves an administrative claim from the U.S. Coast Guard for reimbursement of a portion of the costs associated with the Coast Guard's cleanup of the Milwaukee Roundhouse Site Bunker C tank and material adjacent to Tin Cup Joe Creek and the Clark Fork River. The initial claim was for \$1.1 million, but was reduced to approximately \$400 thousand. The claim is now being reviewed by the Department of Justice. The county has disputed the claim based on its merits as well as our ability to pay. We do not believe there is insurance coverage for this claim if it becomes final.

2. Construction

The County has a commitment to complete construction work that was started under various grant agreements.

3. External Investment Pool

The County maintained an external investment pool for several entities outside of the County reporting entity for fiscal year ended June 30, 2014. The pool consists solely of shares of the Montana Short-Term Investment Pool (STIP), which has been deemed 2a7 like. These investments are reported at amortized cost. On June 30, 2014 the fair value of the external investment portion of the pooled investments was \$187,708, which is the value of the pooled shares. In the State of Montana there is no regulatory oversight for this pool of investments.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

A separately issued report exists for the external investment pool maintained by the County. This report can be obtained by writing to the Powell County Finance Officer, at 409 Missouri Ave., Suite 203, Deer Lodge, MT 59722

M. Private Purpose Trust Fund

In April 2008, the County received a donation of \$357,608 from the Nature Conservancy Blackfoot Community Project to be permanently invested with any interest earned thereon allocated 70% to the County, 18% to the Ovando School, and 12% to the Helmville School. Thus, the County considers 30% of the endowment principal as held in a private purpose trust fund for the Ovando and Helmville Schools. Any undistributed interest due to the Schools is also held in the trust fund.

N. Subsequent Events

Management has evaluated subsequent events through March 25, 2015, the date which the financial statements were available for issue, and noted the following:

Funding of Secure Rural Schools

The County road fund is heavily reliant on funding from the Secure Rural Schools Act, and as previously mentioned, this funding is only authorized through federal fiscal year 2014 (county fiscal year 2014). Should the Act not be reauthorized, the maximum mill levy allowed in the road fund will not be enough to provide adequate maintenance and repair of the existing County roads.

SUPPLEMENTAL INFORMATION

POWELL COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2014

Federal CFDA Number	Pass- Through Grantor's Number	Program or Award Amount	Cash/Accrued or (Deferred) Revenue at 7/1/2013	Cash Receipts or Revenue Recognized	Contract Disbursements/ Expenditures	Cash/Accrued or (Deferred) Revenue at 6/30/2014
U.S. Department of Agriculture						
10.665	11-RO-11011600-020	\$ 226,139	\$ -	\$ 53,145	\$ 53,145	\$ -
10.665	13-DG-11010200-039	\$ 9,700	-	1,757	1,757	-
Passed through Montana Department of Administration:						
10.665		\$ 587,771	-	587,771	460,517	(127,254)
10.665		\$ 657,874	(308,574)	-	308,574	-
Passed through Montana Department of Natural Resources and Conservation:						
10.664	VFA-14-390	\$ 6,800	-	-	2,996	2,996
10.664	VFA-13-390	\$ 8,250	(3,682)	1,000	4,682	-
Passed through Montana Department of Agriculture:						
10.664	WMA 2011-703	\$ 18,286	-	9,420	9,420	-
10.664	WMA 2011-704	\$ 17,355	-	6,007	6,007	-
10.664	WMA 2011-706	\$ 4,450	-	4,450	4,450	-
10.680	WMA 2012-708	\$ 14,833	-	5,225	5,225	-
10.680	WMA 2012-726	\$ 4,300	-	2,567	2,567	-
10.680	WMA 2012-729	\$ 5,000	-	4,103	4,103	-
10.680	WMA 2013-710	\$ 16,000	-	5,671	5,671	-
10.680	WMA 2013-711	\$ 5,000	-	5,000	5,000	-
Total U.S. Department of Agriculture				686,116	874,114	(124,258)
U.S. Department of the Interior						
15.230	L12AC20319	\$ 167,600	399	30,537	45,344	15,206
Invasive and Noxious Plant Management				30,537	45,344	15,206
Total U.S. Department of the Interior				30,537	45,344	15,206
U.S. Department of the Justice						
Passed through Montana Department of Justice:						
16.575	13-V01-91528	\$ 34,340	-	24,984	33,849	8,865
16.575	12-V01-91192	\$ 33,986	8,434	9,756	1,322	-
Total U.S. Department of the Justice				34,740	35,171	8,865
U.S. Department of Transportation						
20.106	3-30-0021-010-2012	\$ 241,427	26,453	28,743	2,290	-
20.103	3-30-0021-011-2013	\$ 122,327	-	31,497	32,847	1,350
20.71	DTPH56-3-G-PHPT06	\$ 18,288	-	-	4,253	4,253
Passed through Montana Department of Commerce						
20.205	UPN 8073	\$ 137,929	13,135	40,791	53,024	25,368
Community Transportation Enhancement Program (CTEP)				101,031	92,414	30,971
Total U.S. Department of Transportation				101,031	92,414	30,971

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2014

Federal/State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash/Accrued or (Deferred) Revenue at 7/1/2013	Cash Receipts or Revenue Recognized	Contract Disbursements/Expenditures	Cash/Accrued or (Deferred) Revenue at 6/30/2014
U.S. Environmental Protection Agency							
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements - ARRA	66.802	V-97857701	\$ 500,806	51,305	51,305	-	-
Total U.S. Environmental Protection Agency				51,305	51,305	-	-
U.S. Department of Health and Human Services							
Passed through Montana Department of Health and Human Services:							
Public Health Emergency Preparedness and Response Program	93.069	13-07-6-11-040-0	\$ 39,127		8,467	8,467	-
Public Health Emergency Preparedness and Response Program	93.069	14-07-6-11-040-0	\$ 32,028		22,268	25,562	3,294
Immunization Program	93.069	13-07-4-31-135-0	\$ 4,913	(2,153)	2,152	4,305	-
Immunization Program	93.268	14-07-4-31-135-0	\$ 4,305		1,076	1,076	-
Maternal Child Health	93.984	14-07-5-01-039-0	\$ 5,879		4,703	4,703	-
Total U.S. Department of Health and Human Services				(2,153)	38,666	44,113	3,294
U.S. Department of Homeland Security							
Passed through Montana Department of Military Affairs - Disaster & Emergency Services Division :							
Emergency Management Performance Grant (EMPG)	97.042	EMW-2013-EP-00444-S01	\$ 11,573		2,472	12,140	9,668
Emergency Management Performance Grant (EMPG)	97.043	EMW-2012-SS-00143-S01	\$ 22,254	4,208	5,851	1,643	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1996-DR-MT	\$ 326,359	(29,544)	11,842	142,411	101,025
Hazard Mitigation Grant Program	97.043	FEMA-DR-1767-MT	\$ 142,411		142,411	-	(142,411)
Total U.S. Department of Homeland Security				(25,336)	162,576	156,194	(31,718)
				\$ (240,019)	\$ 1,104,971	\$ 1,247,350	\$ (97,640)

See accompanying notes to the basic financial statements.

POWELL COUNTY, MONTANA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Powell County and is presented on the 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 the preparation of the financial statements.



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Michael E. Johns, CPA
Robert L. Bristol, CPA
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James A. McKenzie, CPA
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Kyle T. McGree, CPA
Craig C. Tippett, CPA

CPA's

Michael J. Blakeley
John E. Boyce

Of Counsel

John F. Burns, CPA

Founder

John N. Newland, CPA
(1906-1999)

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*

Council of County Commissioners
Powell County
Deer Lodge, MT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Powell County, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Powell County's basic financial statements and have issued our report thereon dated March 25, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See Finding #14-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Powell County'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items Finding #14-02.

Powell County's Response to Findings

Powell County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Powell County'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.

Newland and Company

NEWLAND AND COMPANY
A Professional Corporation

Deer Lodge, MT
March 25, 2015



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

Council of County Commissioners
Powell County
Deer Lodge, MT

Report on Compliance for Each Major Federal Program

We have audited Powell County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Powell County's major federal programs for the year ended June 30, 2014. Powell County'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 Powell County'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 Powell County'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 Powell County's compliance.

Opinion on Each Major Federal Program

In our opinion, Powell County, 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 major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Powell County 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 Powell County'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 Powell County's internal control over compliance.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding #14-01 that we consider to be significant deficiencies

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.

Newland and Company

NEWLAND AND COMPANY
A Professional Corporation

Deer Lodge, MT
March 25, 2015

POWELL COUNTY
DEER LODGE, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. Summary of Audit Results:

1. Type of report issued on the financial statements:
Unmodified opinion.
2. Internal control over financial reporting:
 - a. Material weakness identified? No.
 - b. Significant deficiencies identified not considered to be material weaknesses? Yes, see finding #14-01
3. Material noncompliance noted:
None
4. Internal control over major programs?
 - a. Material weaknesses identified? No.
 - b. Significant deficiencies identified not considered to be material weaknesses? Yes, see finding #14-01.
5. Type of report issued on compliance for major programs:
Unqualified
6. Findings and questioned costs are as reported in this schedule as required by Section 510(a) of OMB Circular A-133.
7. Major programs:

U.S. Department of Agriculture	
Passed Through Montana State Auditor	
CFDA No.	10.665
Program Name:	Secure Payments for States and Counties Containing Federal Lands
Contract expenditures	\$823,993
8. Dollar threshold used to distinguish between Type A and Type B programs:

Threshold amount	<u>\$300,000</u>
------------------	------------------
9. Did the auditee qualify as a low-risk auditee?
No

B. Findings – Financial Statement Audit
Finding #14-01 & #14-02

C. Findings and Questioned Costs – Major Federal Awards Program Audit
Finding #14-01 & #14-02

POWELL COUNTY
DEER LODGE, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SIGNIFICANT DEFICIENCY – INTERNAL CONTROL

FINDING NO. 14-01 – SEGREGATION OF DUTIES

Condition:

Numerous employees are responsible for receipting and disbursement of funds throughout Powell County. Several County departments, and the Council on Aging, are in charge of collecting fees and subsequently disbursing the funds to the County Treasurer or other governmental agencies. Employees are performing both of these functions in small offices.

Criteria:

Internal controls should be in place that provide for segregation of duties between the bookkeeping and the disbursement function.

Cause:

Many of the County departments, as well as the Council on Aging, have a limited number of staff thus requiring one person to do both the receipting and disbursing of funds.

Effect:

There is a lack of segregation of duties between the receipting and disbursement functions. There is a potential for theft of county funds.

Recommendation:

Procedures should be implemented to require proper segregation of duties between the disbursement functions and record keeping functions.

POWELL COUNTY
DEER LODGE, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

OTHER MATTER - COMPLIANCE

FINDING NO. 14-02 – REMITTANCE OF REPORTS AND FUNDS TO THE DEPARTMENT OF JUSTICE, DEPARTMENT OF REVENUE AND CITY OF DEER LODGE

Condition:

The County Collection reports and the related remittance of funds to the Department of Revenue, Department of Justice and the City of Deer Lodge are not being done by the 20th of the month for collections made during the preceding month as is required by MCA #15-1-504.

Criteria:

MCA #15-1-504 requires the County Collection reports and related remittance of funds collected be submitted to the Department of Revenue, Department of Justice and the City of Deer Lodge by the 20th of the month for collections made during the preceding month. MCA #15-1-504 also states counties not remitting funds on time can be subject to a 10% interest charge on all money not remitted on time.

Cause:

We noted 14 instances out of a possible 36 (5 months to the City of Deer Lodge; 4 months to the Department of Justice; and 5 months to the Department of Revenue) remittances during fiscal year 2013-2014 where the remittance was done later than the 20th of the month.

Effect:

The County could be subject to a 10% interest charge on late remittance of money collected.

Recommendation:

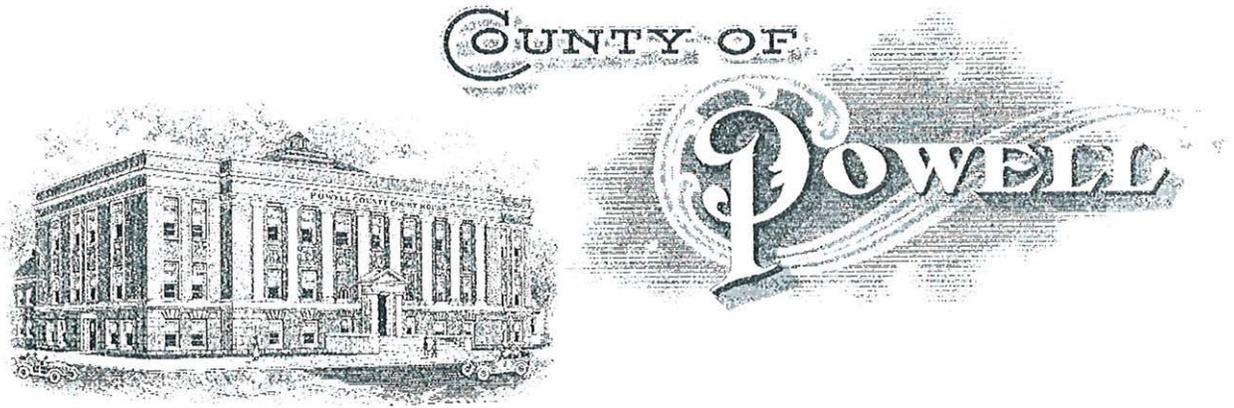
The Treasurer needs to ensure the required County Collection reports and related remittances are done by the 20th of each month.

POWELL COUNTY
DEER LODGE, MONTANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTION COSTS

The following is a summary of the prior year report recommendations and whether or not any action has been taken regarding the recommendations:

	<u>Not Implemented or Corrected</u>	<u>Partially Implemented or Corrected</u>	<u>Implemented or Corrected</u>
Segregation of Duties	X		



March 17, 2015

Newland and Company
212 Missouri Avenue
Deer Lodge, MT 59722

To Whom It May Concern:

CORRECTIVE ACTION PLAN

This letter is in response to finding 14-01 of the audit of Powell County for the year ended June 30, 2014.

FINDING NO. 14-01 – SEGREGATION OF DUTIES

Recommendation:

Procedures should be implemented to require proper segregation of duties between the disbursement and record keeping functions.

Response:

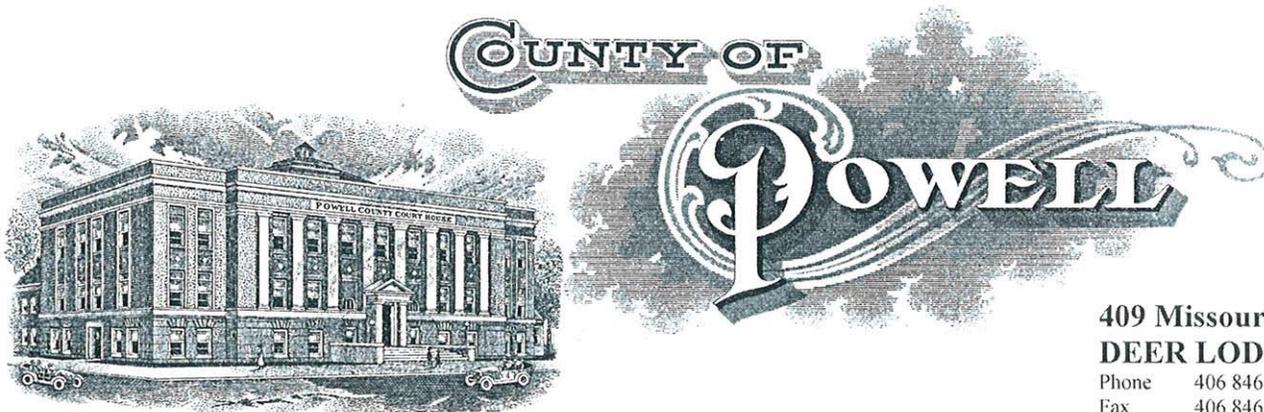
CONCUR

The County is financially unable to hire enough employees to provide the optimum level of segregation of duties in every department; however, we continue to explore and adopt ways to provide compensating controls at our current staff level.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jennifer J. Spring', written in a cursive style.

Jennifer J. Spring
Powell County Finance Officer



409 Missouri Avenue
DEER LODGE MT 59722
Phone 406 846 9797
Fax 406 846 3891

March 17, 2015

Newland and Company
212 Missouri Avenue
Deer Lodge, MT 59722

To Whom It May Concern:

AUDIT RESPONSE - Powell County Treasurer's Office

This memo is in response to the audit of Powell County for the year ended June 30, 2014.

FINDING NO. 14-02 – REMITTANCE OF REPORTS AND FUNDS TO THE DEPARTMENT OF JUSTICE, DEPARTMENT OF REVENUE AND CITY OF DEER LODGE

Recommendation:

The Treasurer needs to ensure the required County Collection reports and related remittances are done by the 20th of each month.

Response:

CONCUR

The Powell County Treasurer's Office will ensure the required County Collection reports and related remittances are done by the 20th of each month.

Sincerely,

A handwritten signature in blue ink that reads "Lisa D. Smith".

Lisa D. Smith
Powell County Treasurer