

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

# SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

## TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-7
Independent Auditor's Report	8-10
<b>Financial Statements</b>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Fund Types	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Types	18
Statement of Cash Flows – Proprietary Fund Types	19
Statement of Net Position – Fiduciary Fund Types	20
Statement of Changes in Net Position – Fiduciary Fund Types	21
Notes to Financial Statements	22-41
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule	42-44
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	45
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	46
<b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards	48
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	49-50

SANDERS COUNTY, MONTANA

**TABLE OF CONTENTS – Continued**

Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	51-52
Schedule of Findings and Questioned Costs	53-57
Report on Prior Audit Recommendations	58

SANDERS COUNTY, MONTANA

**ORGANIZATION**

Fiscal year Ended June 30, 2014

**BOARD OF COUNTY COMMISSIONERS**

Glen Magera  
Carol Brooker  
Anthony Cox

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Robert Zimmerman  
Carol Turk  
Nichol Scribner  
Candace Fisher  
Donald Strine  
Thomas Rummel

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

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

Our discussion and analysis of Sanders County's financial performance provides an overview of Fiscal Year 2013-2014 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole, readers should review the basic financial statements found in the annual report to enhance their understanding of the County's financial performance.

### **FINANCIAL HIGHLIGHTS**

- ❖ The County's taxable value decreased as the Taxable Market Value decreased and the Exemption Rate increased. The County's mill levy for Fiscal Year 2013-2014 residences valued at \$100,000 and \$200,000 would be assessed approximately \$1.31 and \$2.47 respectively, in additional property taxes in each tax year. Insufficient operating reserves for county services due to increased labor, material and operating costs are out pacing mill levy revenue increases and outside funding sources, such as grants.
- ❖ Looking forward to FY 2014-15, the property reassessment projections are not favorable; therefore the County is looking at potential ways to proactively save and cut spending for potential tax shortfalls in the upcoming years. Further, the County is adjusting the number of taxable mills by 5.96 for the next three years beginning in FY 2014-15 in order to correct an audit finding.
- ❖ Pilt payments were fully funded this FY. There is uncertainty whether Secure Rural Schools money will be available in the future. This funding ended in FY2012 and is now considered on a year-to-year basis.
- ❖ The County received a substantial amount of revenue through numerous grants. Grants included WIC, MCH, Tobacco, Rush Skeleton Weed, we are expecting Eurasian Milfoil Grants to extend into future years, and U.S. Department of Justice Programs on Violence Against Women Grants.

### **USING THIS ANNUAL FINANCIAL REPORT**

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County of Sanders' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

#### **Government-wide financial statements**

##### **Statement of Net Position and the Statement of Activities**

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities. These statements include all assets and liabilities of the County using the full accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

These two statements report the County's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the County's financial position. Over time, increases and decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base and the condition of infrastructure within the County.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been designated for specific activities or objectives. The County of Sanders uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Sanders County funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- **Governmental Funds:** Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources available to finance future county services. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds:** The County of Sanders maintains one proprietary fund, it is an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The Sanders County Solid Waste Refuse Disposal District, being our one enterprise fund, provides refuse disposal and recycling services to the residents of Sanders County. Proprietary funds are reported using full accrual accounting the same accounting method used by the Statement of Net Position and the Statement of Activities.
- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the governmental wide financial statements because the resources of those funds are not available to support the County's programs-services. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund and notes to the financial statements can be found in the Annual Report.

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
	Current and other assets	\$ 7,834,334	\$ 6,915,904	\$ 918,430	\$ 612,463	\$ 604,770
Capital assets	11,251,985	11,458,193	(206,208)	573,711	584,616	(10,905)
Total assets	\$ 19,086,319	\$ 18,374,097	\$ 712,222	\$ 1,186,174	\$ 1,189,386	\$ (3,212)
Long-term debt outstanding	\$ 1,262,080	\$ 1,127,066	\$ 135,014	\$ 142,882	\$ 110,185	\$ 32,697
Other liabilities	55,882	40,208	15,674	235	235	-
Total liabilities	\$ 1,317,962	\$ 1,167,274	\$ 150,688	\$ 143,117	\$ 110,420	\$ 32,697
Net investment in capital assets	\$ 11,020,246	\$ 11,246,703	\$ (226,457)	\$ 573,711	\$ 580,756	\$ (7,045)
Restricted	4,338,275	3,690,613	647,662	-	-	-
Unrestricted (deficit)	2,409,836	2,269,507	140,329	469,346	498,210	(28,864)
Total net position	\$ 17,768,357	\$ 17,206,823	\$ 561,534	\$ 1,043,057	\$ 1,078,966	\$ (35,909)

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>	<u>FY14</u>	<u>FY13</u>	<u>Change Inc (Dec)</u>
	<b>Revenues</b>					
<i>Program revenues (by major source):</i>						
Charges for services	\$ 974,490	\$ 14,122	\$ 960,368	\$ 102,202	\$ 126,994	\$ (24,792)
Operating grants and contributions	2,154,599	2,829,118	(674,519)	-	-	-
Capital grants and contributions	136,415	139,826	(3,411)	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	4,022,317	3,789,442	232,875	751,256	728,669	22,587
Liquor tax apportionment	4,150	4,550	(400)	-	-	-
Miscellaneous	209,099	476,382	(267,283)	18,765	3,350	15,415
Interest/investment earnings	21,274	28,718	(7,444)	1,197	1,566	(369)
PILT	329,947	303,664	26,283	-	-	-
State entitlement	942,575	902,688	39,887	-	-	-
Grants and entitlements not restricted to specific programs	97,999	88,458	9,541	-	-	-
Licenses and permits	15,056	19,921	(4,865)	-	-	-
Contributions & donations	11,108	10,864	244	-	-	-
Local option tax	346,588	331,970	14,618	-	-	-
Fire	24,000	12,000	12,000	-	-	-
Total revenues	\$ 9,289,617	\$ 8,951,723	\$ 337,894	\$ 873,420	\$ 860,579	\$ 12,841
<b>Program expenses</b>						
General government	\$ 2,214,119	\$ 2,150,361	\$ 63,758			
Public safety	2,151,876	2,084,177	67,699			
Public works	3,044,105	3,223,416	(179,311)			
Public health	332,713	363,930	(31,217)			
Social and economic services	371,463	396,474	(25,011)			
Culture and recreation	437,691	449,260	(11,569)			
Housing and community development	16,396	23,319	(6,923)			
Debt service - interest	2,713	3,549	(836)			
Miscellaneous	156,719	227,353	(70,634)			
Solid Waste				\$ 909,329	\$ 827,136	\$ 82,193
Total expenses	\$ 8,727,795	\$ 8,921,839	\$ (194,044)	\$ 909,329	\$ 827,136	\$ 82,193
<b>Increase (decrease) in net position</b>	\$ 561,822	\$ 29,884	\$ 531,938	\$ (35,909)	\$ 33,443	\$ (69,352)

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

**Net Position Analysis**

By far the largest portion of the County’s net position are reflected in capital assets (e.g. land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Unrestricted net position may be used to meet the government’s ongoing obligations to citizens and creditors.

**GOVERNMENTAL ACTIVITIES**

The cost of all Governmental activities this year was \$8,727,795 as found in the Statement of Activities. Shown on the same statement, expenses for these activities were financed through taxes, charges for services which are costs being paid by those who directly benefited from these services and/or programs or by other governments and organizations that subsidized certain programs with operating grants, other revenues such as interest earnings, entitlement reimbursements, general contributions and other miscellaneous revenues along with remaining cash carryovers from the prior fiscal year.

<b>Fund Balance Analysis</b>	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>
Unassigned Fund Balance – Prior Year	\$ 3,107,682	\$ -	\$ -
Unassigned Fund Balance – Current Year	3,390,118	-	-
Restricted Fund Balance – Prior Year	-	921,531	357,206
Restricted Fund Balance – Current Year	-	972,439	430,039
Non-spendable Fund Balance - Current Year	-	54,675	-
Change in fund balance	282,436	50,908	72,833
% change in fund balance	9.1 %	5.5%	20.4%

**BUSINESS TYPE ACTIVITIES**

Enterprise Funds: The County owns and operates the Solid Waste Refusal Disposal District. The program provides disposal for wastes delivered to its central transfer station. The utility is supported by its users. The revenue, which supports this fund, is derived from three sources: 1) property owners are assessed a yearly fee of \$125, 2) interest earnings (which are slowly declining) and 3) miscellaneous revenues (e.g. recycling, non-typical waste disposal fees). The enterprise funds prime objective is to provide both disposal services to its residents and business and recycling opportunities. Under the direction of our current supervisor, the Solid Waste department is more organized and efficient and has increased the revenue for recycling and non-typical waste fees. High fuel prices and tipping fees have continued to affect fund balances.

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

**Unrestricted Net Position:**

	<u>Solid Waste</u>
Current Year	\$ 469,346
Prior Year	\$ 494,350
Change in unreserved retained earnings	25,004
% change in unreserved retained earnings	5.1%

**CAPITAL ASSETS AND LONG-TERM DEBT**

The capital assets of the County are those assets, which are used in the performance of the County's functions including infrastructure. In addition, debt is considered a liability of governmental activities both are reflected in the following charts noting that additional information can be obtained in the notes to the financial statements.

**Long Term Debt**

In FY 2014 Sanders County reduced its Intercap Loan debt by \$27,522. These funds were used for building improvements and the Sanders County Fairgrounds. Compensated absences balance in governmental funds increased to a total of \$335,009. The OPEB Governmental liability reported is \$695,332.

**Capital Assets**

In FY14, Sanders County's governmental fixed assets had a net change of \$206,208. During the year there were some new governmental machinery and equipment purchases and some equipment was retired. The construction in progress increased \$15,976 in governmental capital assets as well. The solid waste fund had an increase of \$51,915 in machinery and equipment. The overall net change in the solid waste fund's capital assets was \$10,905.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The annual budget assures the efficient, effective and economic uses of the County's resources, as well as establishing that the highest priority objectives are accomplished. Through the budget, the County Board of Commissioners sets the direction of the County, while keeping in mind both the positive and negative events happening within Sanders County the Board is able to allocate its resources and establish its priorities.

Situations having a negative impact primarily on revenue, tax receipts, associated losses and services within Sanders County that come to mind are: 1) fluctuating utility prices 2) the rising costs of liability, health and workman compensation insurance premiums 3) Three-year adjustments to taxable mill's to correct audit findings, 4) the 2015 Department of Revenue property assessment, 5) the decrease in available Payment In Lieu of Taxes money as presented in the 2014 Legislature, and 6) the absence of Secure Rural School funding.

At the time of this analysis, economic indicators have declined somewhat in Sanders County. The Board of Commissioners recognize that the indicators affecting Sanders County's economy

SANDERS COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2014

can be attributed to: 1) newly taxable property, in the amount of \$1,135,813 from new construction throughout the county is down \$860,708 from the previous year, 2) unemployment rates in FY 13-14 slowly declined from 16.1% in January to an approximate level of 8.3% in October 2014; ranking Sanders County 4<sup>th</sup> in highest unemployment for the state. 3) alternative schools & mining of building stones have both stabilized, although they are down from past years; 4) tourism is a continuing part of our economy, providing the potential for increased sales to local business, snowmobile and ATV activities have increased; 5) various businesses opened and closed this FY. This information is difficult to track due to no county-wide permit system. Information will be available through the Department of Revenue as business owners file their taxes.

Capital expenditures for the coming fiscal year 2014-2015 include 911-communication equipment upgrades; two CTEP trail projects, one in Thompson Falls and one in Plains. We will also be working on the completion of the CTEP funded Road to the Buffalo. In 2015, Sanders County will purchase a gravel pit in Plains, and will continue to look forward to 2018 Federal Aviation Administration project at the Thompson Falls Airport. These capital expenditures will be funded by general or program revenues, grant funds, appropriations, and contributions.

Overall, we, the Board of Sanders County Commissioners feel hopeful about the County's finances and overall economy. Some of our positive indicators include the large addition to the Plains School, Quinn's Hot Springs is doing well and expanding, Thompson River Lumber has automated systems and expanded (the county still has an operating lumber mill), and Clark Fork Valley Hospital expanded services and providers. It is our goal to maintain and provide the services needed to the residents of Sanders County. We feel that by striving for a stable economy and reliable revenues, we may be able to effectively provide for our citizen's needs, now and in the future. We continue to work on funding projects in our county that will benefit our citizens, while being fiscally responsible.

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

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

---

**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

**Report on the Financial Statements**

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

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position and 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, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 7, 42 through 45, and 46 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 the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 on our consideration of the Sanders County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanders County, Montana's internal control over financial reporting and compliance.

*Derring, Downey and Associates, CPAs, P.C.*

March 26, 2015

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 7,386,079	\$ 409,868	\$ 7,795,947
Taxes and assessments receivable, net	276,810	202,595	479,405
Due from other governments	73,470	-	73,470
Inventories	97,975	-	97,975
Total current assets	<u>\$ 7,834,334</u>	<u>\$ 612,463</u>	<u>\$ 8,446,797</u>
Noncurrent assets			
Capital assets - land	\$ 1,845,432	\$ 54,440	\$ 1,899,872
Capital assets - construction in progress	241,376	-	241,376
Capital assets - depreciable, net	9,165,177	519,271	9,684,448
Total noncurrent assets	<u>\$ 11,251,985</u>	<u>\$ 573,711</u>	<u>\$ 11,825,696</u>
Total assets	<u>\$ 19,086,319</u>	<u>\$ 1,186,174</u>	<u>\$ 20,272,493</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 790	\$ -	\$ 790
Accounts payable	27,591	235	27,826
Due to other governments	27,501	-	27,501
Current portion of long-term capital liabilities	49,898	-	49,898
Current portion of compensated absences payable	229,312	19,118	248,430
Total current liabilities	<u>\$ 335,092</u>	<u>\$ 19,353</u>	<u>\$ 354,445</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 695,332	\$ 111,059	\$ 806,391
Noncurrent portion of long-term capital liabilities	181,841	-	181,841
Noncurrent portion of compensated absences	105,697	12,705	118,402
Total noncurrent liabilities	<u>\$ 982,870</u>	<u>\$ 123,764</u>	<u>\$ 1,106,634</u>
Total liabilities	<u>\$ 1,317,962</u>	<u>\$ 143,117</u>	<u>\$ 1,461,079</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 11,020,246	\$ 573,711	\$ 11,593,957
Restricted for general government	469,896	-	469,896
Restricted for public safety	1,135,327	-	1,135,327
Restricted for public works	2,100,234	-	2,100,234
Restricted for public health	263,333	-	263,333
Restricted for social and economic services	68,489	-	68,489
Restricted for culture and recreation	203,021	-	203,021
Non-spendable	97,975	-	97,975
Unrestricted	2,409,836	469,346	2,879,182
Total net position	<u>\$ 17,768,357</u>	<u>\$ 1,043,057</u>	<u>\$ 18,811,414</u>

See accompanying Notes to the Financial Statements

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

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expenses) Revenues and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government</b>		
					<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,214,119	\$ 212,997	\$ 11,684	\$ -	\$ (1,989,438)	\$ -	\$ (1,989,438)
Public safety	2,151,876	441,750	268,940	-	(1,441,186)	-	(1,441,186)
Public works	3,044,105	90,323	1,701,033	116,973	(1,135,776)	-	(1,135,776)
Public health	332,713	-	167,507	-	(165,206)	-	(165,206)
Social and economic services	371,463	-	5,435	-	(366,028)	-	(366,028)
Culture and recreation	437,691	229,420	-	2,688	(205,583)	-	(205,583)
Housing and community development	16,396	-	-	16,754	358	-	358
Debt service - interest	2,713	-	-	-	(2,713)	-	(2,713)
Miscellaneous	156,719	-	-	-	(156,719)	-	(156,719)
Total governmental activities	\$ <u>8,727,795</u>	\$ <u>974,490</u>	\$ <u>2,154,599</u>	\$ <u>136,415</u>	\$ <u>(5,462,291)</u>	\$ <u>-</u>	\$ <u>(5,462,291)</u>
Business-type activities:							
Solid Waste	\$ 909,329	\$ 102,202	\$ -	\$ -	\$ -	\$ (807,127)	\$ (807,127)
Total primary government	\$ <u>9,637,124</u>	\$ <u>1,076,692</u>	\$ <u>2,154,599</u>	\$ <u>136,415</u>	\$ <u>(5,462,291)</u>	\$ <u>(807,127)</u>	\$ <u>(6,269,418)</u>
General Revenues:							
Property taxes for general purposes					\$ 4,022,317	\$ 751,256	\$ 4,773,573
Liquor tax apportionment					4,150	-	4,150
Miscellaneous					209,099	18,765	227,864
Interest/investment earnings					21,274	1,197	22,471
PILT					329,947	-	329,947
State entitlement					942,575	-	942,575
Grants and entitlements not restricted to specific programs					97,999	-	97,999
Licenses and permits					15,056	-	15,056
Contributions & donations					11,108	-	11,108
Local option tax					346,588	-	346,588
Fire					24,000	-	24,000
Total general revenues, special items and transfers					\$ <u>6,024,113</u>	\$ <u>771,218</u>	\$ <u>6,795,331</u>
Change in net position					\$ <u>561,822</u>	\$ <u>(35,909)</u>	\$ <u>525,913</u>
Net position - beginning					\$ 17,206,823	\$ 1,078,966	\$ 18,285,789
Restatements					(288)	-	(288)
Net position - beginning - restated					\$ <u>17,206,535</u>	\$ <u>1,078,966</u>	\$ <u>18,285,501</u>
Net position - end					\$ <u>17,768,357</u>	\$ <u>1,043,057</u>	\$ <u>18,811,414</u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 3,324,253	\$ 976,010	\$ 420,279	\$ 2,665,537	\$ 7,386,079
Taxes and assessments receivable, net	95,592	29,356	82,178	69,684	276,810
Due from other funds	67,620	-	-	1,931	69,551
Due from other governments	3,592	12,478	15,363	42,037	73,470
Inventories	-	54,675	-	43,300	97,975
Total current assets	<u>\$ 3,491,057</u>	<u>\$ 1,072,519</u>	<u>\$ 517,820</u>	<u>\$ 2,822,489</u>	<u>\$ 7,903,885</u>
Total assets	<u>\$ 3,491,057</u>	<u>\$ 1,072,519</u>	<u>\$ 517,820</u>	<u>\$ 2,822,489</u>	<u>\$ 7,903,885</u>
Current liabilities:					
Warrants payable	\$ 790	\$ -	\$ -	\$ -	\$ 790
Accounts payable	2,546	16,049	5,603	3,393	27,591
Due to other funds	-	-	-	69,551	69,551
Due to other governments	2,011	-	-	25,490	27,501
Total current liabilities	<u>\$ 5,347</u>	<u>\$ 16,049</u>	<u>\$ 5,603</u>	<u>\$ 98,434</u>	<u>\$ 125,433</u>
Total liabilities	<u>\$ 5,347</u>	<u>\$ 16,049</u>	<u>\$ 5,603</u>	<u>\$ 98,434</u>	<u>\$ 125,433</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources	<u>\$ 95,592</u>	<u>\$ 29,356</u>	<u>\$ 82,178</u>	<u>\$ 69,684</u>	<u>\$ 276,810</u>
<b>FUND BALANCES</b>					
Nonspendable	\$ -	\$ 54,675	\$ -	\$ 43,300	\$ 97,975
Restricted	-	972,439	430,039	2,653,684	4,056,162
Unassigned fund balance	3,390,118	-	-	(42,613)	3,347,505
Total fund balance	<u>\$ 3,390,118</u>	<u>\$ 1,027,114</u>	<u>\$ 430,039</u>	<u>\$ 2,654,371</u>	<u>\$ 7,501,642</u>

See accompanying Notes to the Financial Statements

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

<b>Total fund balances - governmental funds</b>	\$ 7,501,642
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,251,985
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	276,810
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(1,262,080)
<b>Total net position - governmental activities</b>	<b>\$ <u>17,768,357</u></b>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 1,924,043	\$ 794,735	\$ 1,349,680	\$ 1,188,555	\$ 5,257,013
Licenses and permits	5,975	-	8,425	-	14,400
Intergovernmental	351,189	1,288,686	89,570	1,002,893	2,732,338
Charges for services	250,982	802	348,535	376,399	976,718
Fines and forfeitures	66,327	-	143	12,300	78,770
Miscellaneous	43,912	431	8,031	94,384	146,758
Investment earnings	20,058	-	-	1,216	21,274
Total revenues	<u>\$ 2,662,486</u>	<u>\$ 2,084,654</u>	<u>\$ 1,804,384</u>	<u>\$ 2,675,747</u>	<u>\$ 9,227,271</u>
<b>EXPENDITURES</b>					
General government	\$ 2,011,816	\$ 14,643	\$ -	\$ 32,493	\$ 2,058,952
Public safety	13,895	-	1,711,995	321,984	2,047,874
Public works	-	1,783,717	-	699,395	2,483,112
Public health	181,608	-	-	146,556	328,164
Social and economic services	156,907	-	-	214,556	371,463
Culture and recreation	-	-	-	400,137	400,137
Housing and community development	10,310	-	-	1,961	12,271
Debt service - principal	-	-	19,556	32,072	51,628
Debt service - interest	-	-	-	2,713	2,713
Miscellaneous	-	-	-	149,041	149,041
Capital outlay	5,514	235,386	71,877	240,318	553,095
Total expenditures	<u>\$ 2,380,050</u>	<u>\$ 2,033,746</u>	<u>\$ 1,803,428</u>	<u>\$ 2,241,226</u>	<u>\$ 8,458,450</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 282,436</u>	<u>\$ 50,908</u>	<u>\$ 956</u>	<u>\$ 434,521</u>	<u>\$ 768,821</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of general long term debt	\$ -	\$ -	\$ 71,877	\$ -	\$ 71,877
Net Change in Fund Balance	<u>\$ 282,436</u>	<u>\$ 50,908</u>	<u>\$ 72,833</u>	<u>\$ 434,521</u>	<u>\$ 840,698</u>
Fund balances - beginning	\$ 3,107,682	\$ 976,206	\$ 357,206	\$ 2,220,138	\$ 6,661,232
Restatements	-	-	-	(288)	(288)
Fund balances - beginning, restated	<u>\$ 3,107,682</u>	<u>\$ 976,206</u>	<u>\$ 357,206</u>	<u>\$ 2,219,850</u>	<u>\$ 6,660,944</u>
Fund balance - ending	<u>\$ 3,390,118</u>	<u>\$ 1,027,114</u>	<u>\$ 430,039</u>	<u>\$ 2,654,371</u>	<u>\$ 7,501,642</u>

See accompanying Notes to the Financial Statements

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

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

<b>Net change in fund balances - total governmental funds</b>	\$ 840,698
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	553,095
- Depreciation expense	(751,625)
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/loss on capital asset disposal	(7,678)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
- Long-term receivables (deferred revenue)	62,346
The change in compensated absences is shown as an expense in the Statement of Activities	
	(988)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
- Long-term debt principal payments	51,628
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:	
- Proceeds from the sale of long-term debt	(71,877)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:	
- Termination benefits, end of the year	(113,777)
<b>Change in net position - Statement of Activities</b>	<b>\$ <u><u>561,822</u></u></b>

See accompanying Notes to the Financial Statements

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

		<b>Business-Type Activities - Enterprise Funds</b>
		<b>Solid Waste</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	409,868
Taxes and assessments receivable, net		202,595
Total current assets	\$	<u>612,463</u>
Noncurrent assets:		
Capital assets - land	\$	54,440
Capital assets - depreciable, net		519,271
Total noncurrent assets	\$	<u>573,711</u>
Total assets	\$	<u><u>1,186,174</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$	235
Current portion of compensated absences payable		19,118
Total current liabilities	\$	<u>19,353</u>
Noncurrent liabilities:		
Noncurrent portion of long-term liabilities	\$	111,059
Noncurrent portion of compensated absences		12,705
Total noncurrent liabilities	\$	<u>123,764</u>
Total liabilities	\$	<u>143,117</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$	573,711
Unrestricted		469,346
Total net position	\$	<u>1,043,057</u>
Total liabilities and net position	\$	<u><u>1,186,174</u></u>

See accompanying Notes to the Financial Statements

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

		<b>Business-Type Activities - Enterprise Funds</b>
		<u><b>Solid Waste</b></u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	102,202
Miscellaneous revenues		18,765
Special assessments		751,256
Total operating revenues	\$	<u>872,223</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	380,406
Supplies		2,164
Purchased services		432,429
Fixed charges		14,914
Depreciation		79,416
Total operating expenses	\$	<u>909,329</u>
Operating income (loss)	\$	<u>(37,106)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest revenue	\$	<u>1,197</u>
Change in net position	\$	<u>(35,909)</u>
Net Position - Beginning of the year	\$	1,078,966
Net Position - End of the year	\$	<u><u>1,043,057</u></u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types**  
**Fiscal Year Ended June 30, 2014**

	<b>Solid Waste</b>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 835,721
Cash received from miscellaneous sources	18,765
Cash payments to suppliers	(2,164)
Cash payments for professional services	(447,343)
Cash payments to employees	(347,709)
Net cash provided (used) by operating activities	\$ 57,270
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	\$ (68,511)
Net cash provided (used) by capital and related financing activities	\$ (68,511)
<b>Cash flows from investing activities:</b>	
Interest on investments	\$ 1,197
Net cash provided (used) by investing activities	\$ 1,197
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ (10,044)
<b>Cash and cash equivalents at beginning</b>	419,912
<b>Cash and cash equivalents at end</b>	\$ 409,868
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (37,106)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	79,416
Other post-employment benefits	37,926
Changes in assets and liabilities:	
Decrease in compensated absence liability	(5,229)
Increase in receivables	(17,737)
Net cash provided (used) by operating activities	\$ 57,270

See accompanying notes to the financial statements

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

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 10,936,930	\$ 750,625
Taxes receivable	-	852,283
Total assets	<u>\$ 10,936,930</u>	<u>\$ 1,602,908</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 682,690
Due to others	-	920,218
Total liabilities	<u>\$ -</u>	<u>\$ 1,602,908</u>
<b>NET POSITION</b>		
Assets held in trust	<u>\$ 10,936,930</u>	

See accompanying Notes to the Financial Statements

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

		<u><b>Investment Trust Funds</b></u>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	54,816,768
Investment earnings:		
Interest and change in fair value of investments	\$	30,949
Total additions	\$	<u>54,847,717</u>
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>54,106,451</u>
Change in net position	\$	<u>741,266</u>
Net Position - Beginning of the year	\$	10,234,427
Restatements		<u>(38,763)</u>
Net Position - Beginning of the year - Restated	\$	<u>10,195,664</u>
Net Position - End of the year	\$	<u><u>10,936,930</u></u>

See accompanying Notes to the Financial Statements

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

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

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

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014. Our opinion is not modified with respect to this matter.

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates the pre-November 30, 1989 FASB, APB, and ARB pronouncements that the GASB considers to be applicable to state and local governments. This standard is effective for fiscal year ending June 30, 2013.

GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. This standard is effective for fiscal year ending June 30, 2012.

**Financial Reporting Entity**

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

*Primary Government*

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

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

*Related Organizations*

Related organizations are separate legal entities that are related to the primary government because the primary government officials appoint a voting majority of the board members. However, the primary government is not financially accountable because it does not have the ability to impose its will and there is not a potential financial benefit or burden relationship. The County has the following related organizations:

The Cemetery Districts are considered related organizations of the County because the County Commissioners appoint the board members of the districts. However, the County is not financially accountable for the districts because it does not have the ability to impose its will on the districts and there is not a potential financial benefit or burden relationship. The Cemetery Districts are included in the combined balance sheet as agency funds because the County Treasurer must collect and disburse funds for the districts.

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

*Government-wide Financial Statements:*

*Basis of Presentation*

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

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

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

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

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

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

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

Modified Accrual

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

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

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

Major Funds:

The County reports the following major governmental funds:

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

*Road* – This fund accounts for resources allocated by law, contractual agreement, or administrative regulations for, and the payment of, road maintenance, road construction, and other road related costs.

*Public Safety* – This fund accounts for resources allocated by law, contractual agreement, or administrative regulations for, and the payment of, law enforcement services, purchases, and other related costs.

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

***Proprietary Funds:***

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

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

**Major Funds:**

The County reports the following major proprietary funds:

*Solid Waste Fund* – An enterprise fund that accounts for the activities of the County's solid waste service.

***Fiduciary Funds***

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

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

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

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

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

**Cash Composition**

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Petty Cash	\$ 1,200
Cash in banks:	
Demand deposits	2,378,932
Savings deposits	7,290,000
Time deposits	9,813,370
Total	\$ <u><u>19,483,502</u></u>

**Credit Risk**

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

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

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

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

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

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

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

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

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

The government has no investments that require credit risk disclosure.

**Custodial Credit Risk**

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

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 1,020,728
- Collateral held by the pledging bank's trust department but not in the County's name.	18,486,229
Total deposits and investments	\$ <u><u>19,506,957</u></u>

Deposit Security

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

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

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

**Investment in the Treasurer's Pools**

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

The County has one pooled investment trust fund invested in non-negotiable certificates of deposit, savings accounts, and demand deposit accounts. The pooled funds are carried at cost, which approximates fair value.

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

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

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

Investment Income

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

**Condensed statements of investments pools**

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

**Statement of Net Assets**

Net assets held in trust for all pool participants:

Equity of internal pool participants	\$ 8,498,734
Equity of external pool participants	10,936,930
Total equity	\$ <u><u>19,435,664</u></u>

**Condensed Statement of Changes in Net Assets**

	External	Internal
Investment earnings	\$ 30,949	\$ 23,916
Contributions to trust	54,816,768	43,979,526
Distributions paid	(54,106,451)	(43,043,617)
Net change in net assets	\$ <u>741,266</u>	\$ <u>959,825</u>
Net assets at beginning of year	10,234,427	7,569,864
Restatements	(38,763)	(30,955)
Net assets at end of year	\$ <u><u>10,936,930</u></u>	\$ <u><u>8,498,734</u></u>

**Cash equivalents**

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

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

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained.

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

**NOTE 4. INVENTORIES**

The cost of inventories is recorded as an expenditure when purchased. Inventories are accounted for under the first in first out method.

**NOTE 5. CAPITAL ASSETS**

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

Buildings	40 years
Improvements	5 – 30 years
Equipment	5 – 10 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2014 Basic Financial Statements.

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

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 1,845,432	\$ -	\$ -	\$ 1,845,432
Construction in progress	225,400	15,976	-	241,376
Total capital assets not being depreciated	<u>\$ 2,070,832</u>	<u>\$ 15,976</u>	<u>\$ -</u>	<u>\$ 2,086,808</u>
Other capital assets:				
Buildings	\$ 2,596,142	\$ -	\$ -	\$ 2,596,142
Improvements other than buildings	8,695,099	181,006	-	8,876,105
Machinery and equipment	7,928,471	356,113	(27,500)	8,257,084
Total other capital assets at historical cost	\$ 19,219,712	\$ 537,119	\$ (27,500)	\$ 19,729,331
Less: accumulated depreciation	\$ (9,832,351)	\$ (751,625)	\$ 19,822	\$ (10,564,154)
Total	<u>\$ 11,458,193</u>	<u>\$ (198,530)</u>	<u>\$ (7,678)</u>	<u>\$ 11,251,985</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 40,402
Public safety	104,002
Public works	560,993
Public health	4,549
Culture and recreation	37,554
Housing and community development	4,125
Total governmental activities depreciation expense	<u>\$ 751,625</u>

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

Business-type activities:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 54,440	\$ -	\$ -	\$ 54,440
Total capital assets not being depreciated	<u>\$ 54,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,440</u>
Other capital assets:				
Buildings	\$ 380,973	\$ 17,500	\$ -	\$ 398,473
Improvements other than buildings	1,499	-	-	1,499
Machinery and equipment	1,408,016	51,915	(2,360)	1,457,571
Total other capital assets at historical cost	\$ 1,790,488	\$ 69,415	\$ (2,360)	\$ 1,857,543
Less: accumulated depreciation	\$ (1,260,311)	\$ (79,416)	\$ 1,455	\$ (1,338,272)
Total	<u>\$ 584,617</u>	<u>\$ (10,001)</u>	<u>\$ (905)</u>	<u>\$ 573,711</u>

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

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

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

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

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

Governmental Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
Contracted debt	\$ 19,504	\$ -	\$ (4,550)	\$ 14,954	\$ 4,779	
Compensated absences	334,021	988	-	335,009	229,312	
Intercap loans	191,986	-	(27,522)	164,464	28,676	
Capital leases	-	71,877	(19,556)	52,321	16,443	
Other post-employment benefits*	581,555	113,777	-	695,332	-	
<b>Total</b>	<u>\$ 1,127,066</u>	<u>\$ 186,642</u>	<u>\$ (51,628)</u>	<u>\$ 1,262,080</u>	<u>\$ 279,210</u>	

\*See Note 8

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

Business-type Activities:

	Balance			Balance		Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>	
Compensated absences	\$ 37,052	\$ -	\$ (5,229)	\$ 31,823	\$ 19,118	
Other post-employment benefits*	73,133	37,926	-	111,059	-	
<b>Total</b>	<u>\$ 110,185</u>	<u>\$ 37,926</u>	<u>\$ (5,229)</u>	<u>\$ 142,882</u>	<u>\$ 19,118</u>	

\*See Note 8

**Loans/Contracted Debt**

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

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Utility Tractor	8/7/12	4.25%	58 mths	6/20/17	\$ 24,018	\$ 14,954

Reported in the governmental activities.

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

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 4,779	\$ 635
2016	4,982	432
2017	5,193	221
Total	\$ <u>14,954</u>	\$ <u>1,288</u>

**Intercap Loans**

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercap loans outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
Fairgrounds Area Holding Pens Upgrade	7/11/08	1-4.25%	10 yrs	8/15/18	\$ 140,941	\$ 70,147
Concession Stand/Fairgrounds	7/30/10	1-1.95%	10 yrs	8/15/20	<u>140,556</u>	<u>94,317</u>
Imp Draws 1-2						
Total					\$ <u>281,497</u>	\$ <u>164,464</u>

Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 28,676	\$ 1,558
2016	29,443	1,266
2017	30,241	971
2018	31,070	672
2019	22,410	371
2020	14,772	185
2021	7,852	37
Total	\$ <u>164,464</u>	\$ <u>5,060</u>

**Capital Leases**

The County has entered into a lease which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee when all terms of the lease agreements are met. Capital lease obligations outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
----------------	-------------------------	----------------------	-------------	----------------------	-------------------------	------------------------------

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

2014 Ford                      3/7/14      5.95%      4 yrs      3/7/17      \$ 71,877      \$ 52,321  
 Explorer/Interceptor  
 Reported in the governmental activities.

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 16,443	\$ 3,113
2016	17,421	2,135
2017	18,457	1,098
Total	<u>\$ 52,321</u>	<u>\$ 6,346</u>

**Compensated Absences**

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

**NOTE 7.      POSTEMPLOYMENT HEALTHCARE PLAN**

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

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

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

Actuarial Accrued Liability (AAL)	\$	864,050
Actuarial value of plan assets	\$	-

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

Unfunded Actuarial Accrued Liability (UAAL)	\$	864,050
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	3,403,786
UAAL as a percentage of covered payroll		25.4%

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

Annual Required Contribution (ARC)	\$	151,703
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	151,703
Contributions made	\$	-
Increase in net OPEB obligation	\$	151,703
Net OPEB obligation - beginning of year	\$	654,688
Net OPEB obligation - end of year	\$	806,391

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

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	2.00%
Average salary increase (Consumer Price Index)	2.80%

Health care cost rate trend (Federal Office of the Actuary)

**Year**

**% Increase**

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

2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

**NOTE 9. INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Purpose</u>	<u>Due to/from other funds:</u> <u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To cover negative cash balance	General Fund – Major Governmental	Sanders County Coalition – Nonmajor Governmental	\$ 9,277
To cover negative cash balance	General Fund – Major Governmental	Noxious Weeds – Nonmajor Governmental	1,184
To cover negative cash balance	General Fund – Major Governmental	Eurasian Watermilfoil – Nonmajor Governmental	3,239
To cover negative cash balance	General Fund – Major Governmental	Watershed Assessment – Nonmajor Governmental	20,022
To cover negative cash balance	General Fund – Major Governmental	National Highway Traffic – Nonmajor Governmental	3,974
To cover negative cash balance	General Fund – Major Governmental	Special Projects – Nonmajor Governmental	9,416
To cover negative cash balance	General Fund – Major Governmental	Public Health Grants – Nonmajor Governmental	100
To cover negative cash balance	Special Projects – Nonmajor Governmental	Law Enforcement Block – Nonmajor Governmental	409
To cover negative cash balance	Special Projects – Nonmajor Governmental	Public Health Grant – Nonmajor Governmental	525
To cover negative cash balance	Special Projects – Nonmajor Governmental	WIC – Nonmajor Governmental	997
To cover negative cash balance	General Fund – Major Governmental	Law Enforcement Block – Nonmajor Governmental	<u>20,408</u>
Total			<u>\$ 69,551</u>

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

**NOTE 10. STATE-WIDE RETIREMENT PLANS**

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

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

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

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

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

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

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

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

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

	<u>PERS</u>	<u>SRS</u>
2012	\$ 182,804	\$ 67,539
2013	\$ 180,858	\$ 67,661
2014	\$ 202,951	\$ 71,010

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

**NOTE 11. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

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

**NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

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

**Nonspendable Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 54,675	Inventory
All Other Aggregate:	43,300	Inventory
Total	<u>\$ 97,975</u>	

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 972,439	Public Works
Public Safety	430,039	Public Safety
All Other Aggregate:	437,800	General Government
	1,094,344	Public Works
	608,476	Public Safety
	196,325	Culture and Recreation
	282,118	Public Health
	<u>34,621</u>	Social and Economic Services
Total	<u>\$ 4,056,162</u>	

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

**NOTE 13. DEFICIT FUND BALANCES/NET POSITION**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>
Sanders County Coalition for Families	\$ 9,277	Grant Reimbursements were not enough to cover payroll expenditures
Eurasian Watermilfoil	\$ 3,239	Expenditures exceeded the grant revenues received in FY14
Law Enforcement Block Grant	\$ 20,817	Carryforward from previous year which current year revenues did not cover
National Highway Traffic Safety	\$ 3,974	Expenditures exceeded the grant revenues received in FY14
Special Projects	\$ 7,485	Carryforward from previous year and additional deficiency in current year
Public Health Miscellaneous Grants	\$ 625	Carryforward from previous year which current year revenues did not cover
Niarada Cemetery	\$ 3,791	Carryforward from previous year and additional deficiency in current year

**NOTE 14. JOINT VENTURES**

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

**County Library**

The operations of the City-County Library are included in the financial statements of the Special Revenue Fund. The City-County Library District is operated under an interlocal agreement between Sanders County and the Town of Plains. The Library operates under the supervision and control of the City-County Library Board. The Board consists of five members, two who are appointed by the Town Council, two who are appointed by the County Board of Commissioners, and one who is appointed jointly by the Town Council and the County Board of Commissioners. The Library is financed through the Library District which can levy up to five mills.

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

**NOTE 15. SERVICES PROVIDED TO OTHER GOVERNMENTS**

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

**NOTE 16. RISK MANAGEMENT**

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

Insurance Policies:

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

Insurance Pools:

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

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

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

**NOTE 17. PENDING LITIGATION**

The following is a list of litigation pending against the County:

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
Ross Fratzke v. Sanders County (DV-14-22)	Not stated	Not stated
Keith v. Sanders County (DV-13-44)	\$1,000,000	Not stated
Carolyn Koskela v. Sanders County	Not stated	Not stated

**NOTE 18. SIGNIFICANT CONSTRUCTION COMMITMENTS AND/OR OTHER CONTINGENCIES**

Subsequent to June 30, 2014, Sanders County has entered into a project to add a Justice Court Courtroom to the Sanders County Courthouse pursuant to: MCA 3-10-103 *County to provide facilities*. The construction of this new Justice Court Courtroom/Conference room was initiated on December 15, 2014. The estimated overall cost of the project is \$35,000. As of February 5, 2015, the County has expended \$18,500 of the estimated cost. The project is approximately 90% complete with an estimated completion date of March 1, 2015.

**NOTE 19. SUBSEQUENT EVENTS**

In January 2015, the payments were announced for the new fiscal year, and these payments do not include additional funding from the Secure Rural Schools and Community Self-Determination Act (SRS). The SRS Act expired in September 2014, and the program was not reauthorized for fiscal year 2015. With the SRS not being reauthorized, the payments revert back to the pre-existing law under the 1908 Act that mandates the payments to states from receipts from national forests in each state. The amount of funding expected to be distributed to 41 States in 2015 is slightly over \$50,000,000 compared to over \$328,000,000 in 2014. The estimated amount to be distributed to the State of Montana in 2015 is only \$2,230,173. This significant decrease in funding will affect Sanders County as a significant amount of revenues reported in the Road Fund in 2014 were from the Forest Service payments.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

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

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,915,982	\$ 1,915,982	\$ 1,924,043	\$ 8,061
Licenses and permits	500	500	5,975	5,475
Intergovernmental	32,659	39,834	21,242	(18,592)
Charges for services	238,555	238,255	250,982	12,727
Fines and forfeitures	60,550	60,550	66,327	5,777
Miscellaneous	70,250	70,250	43,912	(26,338)
Investment earnings	25,000	25,000	20,058	(4,942)
Amounts available for appropriation	<u>\$ 2,343,496</u>	<u>\$ 2,350,371</u>	<u>\$ 2,332,539</u>	<u>\$ (17,832)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,353,547	\$ 2,358,661	\$ 2,011,816	\$ 346,845
Public safety	48,276	48,276	13,895	34,381
Public works	-	-	-	-
Public health	281,075	284,843	181,608	103,235
Social and economic services	165,516	165,516	156,907	8,609
Housing and community development	10,000	10,000	10,310	(310)
Debt service - principal	-	-	-	-
Capital outlay	949,500	949,500	5,514	943,986
Total charges to appropriations	<u>\$ 3,807,914</u>	<u>\$ 3,816,796</u>	<u>\$ 2,380,050</u>	<u>\$ 1,436,746</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Transfers in	643,364	643,364	-	(643,364)
Transfers out	(829,879)	(829,879)	-	829,879
Total other financing sources (uses)	<u>\$ (186,515)</u>	<u>\$ (186,515)</u>	<u>\$ -</u>	<u>\$ 186,515</u>
Net change in fund balance			<u>\$ (47,511)</u>	
Fund balance - beginning of the year			<u>\$ 2,804,018</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 2,756,507</u></u>	

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

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 839,154	\$ 839,154	\$ 794,735	\$ (44,419)
Licenses and permits	-	-	-	-
Intergovernmental	382,427	382,427	1,288,686	906,259
Charges for services	3,500	3,500	802	(2,698)
Fines and forfeitures	-	-	-	-
Miscellaneous	8,500	8,500	431	(8,069)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 1,233,581</u>	<u>\$ 1,233,581</u>	<u>\$ 2,084,654</u>	<u>\$ 851,073</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 20,600	\$ 20,600	\$ 14,643	\$ 5,957
Public safety	2,263,659	2,263,659	-	2,263,659
Public works	-	-	1,783,717	(1,783,717)
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	-	-
Capital outlay	236,000	-	235,386	(235,386)
Total charges to appropriations	<u>\$ 2,520,259</u>	<u>\$ 2,284,259</u>	<u>\$ 2,033,746</u>	<u>\$ 250,513</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -
Transfers in	746,754	746,754	-	(746,754)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 746,754</u>	<u>\$ 746,754</u>	<u>\$ -</u>	<u>\$ (746,754)</u>
Net change in fund balance			<u>\$ 50,908</u>	
Fund balance - beginning of the year			<u>\$ 976,206</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 1,027,114</u></u>	

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

<b>Public Safety</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	<b>WITH FINAL</b>
			<b>(BUDGETARY</b>	<b>BUDGET</b>
			<b>BASIS) See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,366,121	\$ 1,366,121	\$ 1,349,680	\$ (16,441)
Licenses and permits	6,000	6,000	8,425	2,425
Intergovernmental	69,044	69,044	89,570	20,526
Charges for services	236,000	236,000	348,535	112,535
Fines and forfeitures	500	500	143	(357)
Miscellaneous	18,125	18,125	8,031	(10,094)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 1,695,790</u>	<u>\$ 1,695,790</u>	<u>\$ 1,804,384</u>	<u>\$ 108,594</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	1,826,548	1,890,848	1,711,995	178,853
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Debt service - principal	-	-	19,556	(19,556)
Capital outlay	50,000	-	71,877	(71,877)
Total charges to appropriations	<u>\$ 1,876,548</u>	<u>\$ 1,890,848</u>	<u>\$ 1,803,428</u>	<u>\$ 87,420</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of general long term debt	\$ -	\$ -	\$ 71,877	\$ 71,877
Transfers in	67,380	67,380	-	(67,380)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 67,380</u>	<u>\$ 67,380</u>	<u>\$ 71,877</u>	<u>\$ 4,497</u>
Net change in fund balance			<u>\$ 72,833</u>	
Fund balance - beginning of the year			<u>\$ 357,206</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 430,039</u></u>	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**Budget-to-GAAP Reconciliation**  
**For the fiscal year ended June 30, 2014**

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

	<u>General</u>	<u>Road</u>	<u>Public Safety</u>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,332,539	\$ 2,084,654	\$ 1,804,384
Combined funds (GASBS 54) revenues	329,947	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,662,486</u>	<u>\$ 2,084,654</u>	<u>\$ 1,804,384</u>
<b>Uses/Outflows of resources</b>			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,380,050	\$ 2,033,746	\$ 1,803,428
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,380,050</u>	<u>\$ 2,033,746</u>	<u>\$ 1,803,428</u>

**Sanders County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 850,762	\$ 850,762	0%	\$ 3,385,692	25.1%
July 1, 2012	\$ -	\$ 864,050	\$ 864,050	0%	\$ 3,403,786	25.4%

# **SINGLE AUDIT SECTION**

**Sanders County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditure June 30, 2014</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	14-07-5-21-017-0	\$ 55,977
<i>Passed through Montana State Auditor's Office:</i>			
School's and Roads - Grant to States	10.665	N/A	1,330,405
<i>Passed through Montana Department of Agriculture:</i>			
Forest Health Protection	10.680	MDA 2012-736	8,550
Forest Health Protection	10.680	MDA 2013-707	16,645
<b>Total U.S. Department of Agriculture</b>			<b>\$ 1,411,577</b>
<b><u>U.S. Department of Justice</u></b>			
<i>Direct</i>			
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0533	\$ 7,650
Public Safety Partnership and Community Policing Grants	16.710	2011UMWX0110	73,331
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	2013-WR-AX-0009	13,680
<b>Total U.S. Department of Justice</b>			<b>\$ 94,661</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct:</i>			
Airport Improvement Program	20.106	3-30-0076-008-2013	\$ 103,711
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	20.205	7392	2,407
Highway Planning and Construction	20.205	7508	16,754
Countermeasures Incentive Grants I	20.601	CTS-107355	8,424
<i>Passed through Montana Sheriffs and Peace Officers Association:</i>			
State and Community Highway Safety	20.600	N/A	2,790
<b>Total U.S. Department of Education</b>			<b>\$ 134,086</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	14-07-6-11-047-0	\$ 35,025
PPHF Capacity Building Assistance to Strengthen Public Health Immunization			
Infrastructure and Performance Financed in part by Prevention and Public Health Funds	93.539	14-07-31-177-0	9,450
Community Services Block Grant	93.569	11-253	4,000
Maternal and Child Health Services Block Grant to States	93.994	14-07-5-01-045-0	11,758
<b>Total U.S. Department of Justice</b>			<b>\$ 60,233</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Emergency Management Performance Grants	97.042	EMW-2012-EP-00057-S01	5,745
Emergency Management Performance Grants	97.042	EMW-2013-EP-00044-S01	14,500
State Fire Training System Grants	97.043	EMW-2012-SS-00143-S01	5,055
<b>Total U.S. Department of Justice</b>			<b>\$ 25,300</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 1,725,857</b>

N/A = Not Applicable or Not Available

SANDERS COUNTY, MONTANA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal year Ended June 30, 2014

*Basis of Presentation*

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

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

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

---

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

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Sanders County's basic financial statements and have issued our report thereon dated March 26, 2015.

**Internal Control Over Financial Reporting**

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

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as items 14-1 through 14-3.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sanders County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 14-4.

### **Sanders County's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

*Derrington, Downey and Associates, CPAs, P.C.*

March 26, 2015

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

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

---

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

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

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

We have audited Sanders County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sanders County's major federal programs for the year ended June 30, 2014. The 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 Sanders County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Sanders County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## **Report on Internal Control Over Compliance**

Management of Sanders County, Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the 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 our 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 the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

March 26, 2015

SANDERS COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal year Ended June 30, 2014

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	Yes

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads – Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 14-1 Trust Account Receipts

**Condition:**

The District Court does not produce a monthly trust balancing report to balance the trust receipts, and had receipts that hadn't been entered into the full court system.

**Context:**

During the test of internal controls of the District Court office, we found that the clerk was not preparing a monthly trust balancing report for each trust receipt. Also, we noted there were several receipts that were not entered into the full court system when received.

**Criteria:**

1. The good internal control system should contain all the supporting documents required for receipts to ensure money was actually deposited.
2. A good internal control system should be always be followed to reduce the risk of fraud and theft.

**Effect:**

The County is not performing its duties as expected in their internal control system.

**Cause:**

The Clerk has a number supporting documents that are required to include with the trust receipts, and wasn't including the trust balancing report. Receipts were not immediately entered when received.

**Recommendation:**

We recommend the County ensures that all supporting documents required by the internal control systems are attached to the receipt bundle, and to ensure that all receipts are immediately entered into the full court system.

**Views of Responsible Officials and Planned Corrective Action:**

The District Court followed the recommendation of ensuring all supporting documents are attached to the receipt bundle and all receipts are immediately entered into the full court system. In addition, the Clerk plans to have discussion with other Clerks in the District for their knowledge and best practice regarding the Trust Account, handling transactions, and documentation. Reports are now being generated out of the full court system which are then cross referenced with the reports received from the County Treasurer.

#### 14-2 Dual Signatures on Treasurer's Checks

**Condition:**

Treasurer checks are being written and monies being disbursed with only one signature on the disbursement.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

**Context:**

Testing of the treasurer checks was performed on site. Two months of treasurer checks were tested with 47% of the checks only having one signature.

**Criteria:**

Proper internal controls over the disbursement process require two authorized signatures on each disbursement.

**Effect:**

Having only one signature on the treasurer's checks increases the County's vulnerability for improper disbursements.

**Cause:**

A second authorized individual is not always available.

**Recommendation:**

We recommend that each treasurer check be signed by two authorized members of the County for stronger control over the disbursements.

**Views of Responsible Officials and Planned Corrective Action:**

As Treasurer of Sanders County I take my duties very seriously and monitor all financial activities very closely. I now have additional members of my staff who are authorized to sign the Treasurers checks. There should now always be at least two people available to sign checks and meet the requirement for two signatures.

### 14-3 Sherriff's Office

**Condition:**

There is an internal control weakness in the Sheriff's department due to the following items:

- 1) One person at times is responsible for all cash receipting duties
- 2) Deposits ranging from \$800 to \$4,000 are kept for more than one week in the department.
- 3) Timely monthly cash reconciliations are not being performed.

**Context:**

The cash receipting/disbursement processes were reviewed on site by observation and inquiry with those County employees who are involved with these processes.

**Criteria:**

A strong internal control system ensures that adequate segregation of duties is being implemented, deposits are being made on a timely basis, and monthly cash reconciliations are being performed.

**Effect:**

The internal control weakness in the Sheriff's Department may cause the misappropriation of County assets and inaccurate financial records.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### **Cause:**

Staffing and time constraints have contributed to these issues.

### **Recommendation:**

We recommend that the following be implemented to obtain a stronger internal control structure in the Sheriff's department.

- 1) Segregation of duties be implemented to the fullest extent for the cash receipting process.
- 2) Deposits be made on a weekly basis.
- 3) Monthly cash reconciliations be performed.

### **Views of Responsible Officials and Planned Corrective Action:**

The Sheriff's office implemented to the fullest extent, the segregation of duties in regards to the cash receipting process. Person 1 receipts and/or records the monies, person 2 makes out the deposit and person 3 delivers the deposit to the bank. Deposits are being made weekly. Cash reconciliations are being performed monthly.

## **14-4 Exceeded Mill Levy Limitations Under Section 15-10-420 MCA**

### **Condition:**

In fiscal year 2014, the County levied 85.26 mills for the county wide levy. This is 4.85 mills over the allowable amount of 80.41 mills per the correct mill levy limitations calculation. The County has been over milling the last couple of years. In the prior year, the County over milled 8.34 mills.

### **Context:**

The auditor recalculated the floating mill levies, using the worksheet provided by the State and determined the mills used by the County were more than authorized.

### **Criteria:**

MCA 15-10-420 - Procedure for calculating levy. (1) (a) Subject to the provisions of this section, a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior 3 years. The maximum number of mills that a governmental entity may impose is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year's value of newly taxable property, plus one-half of the average rate of inflation for the prior 3 years.

### **Effect:**

The result of the county wide levy having over-levied mills is the fact that the County is not in compliance with MCA code.

### **Cause:**

The county wide mill levy calculation performed by the county had incorrect data input into the worksheet. Additionally the actual county wide levy of 85.85 mills is still above the client's incorrect calculation of 84.22 mills. It appears that this calculation error was

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

unidentified during the approval of the determination of tax revenue and mill levy limitation calculation. Auditor identified in PY but was after the FY14 budget had been submitted.

**Recommendation:**

Our recommendation is for the County to review the mill levy requirements which are set forth in MCA 15-10-420 prior to establishing mill levies and establish or enforce a review process of the mill levy limitations calculation to ensure accuracy in order to avoid errors which result in over-levied county wide mills. The County should be sure once the calculation is reviewed and deemed accurate that the actual county wide mills levied are no more than what the calculation establishes as authorized.

**Views of Responsible Officials and Planned Corrective Action:**

By August 2014, Clerk & Recorder reviewed the mill levy requirements which are set forth in MCA 15-10-420 prior to establishing mill levies for 2015 and enforced a review process of the mill levy limitations calculation to ensure accuracy to avoid errors. Further, the County will under levy for three years to adjust for over milling, this started with the 2015 tax season.

**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs reported.

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

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

---

**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Double recording of liability insurance expense	Implemented
Exceeded Mill Levy Limitations Under Section 15-10-420 MCA	Repeated
Unrecorded due from other governments	Implemented
County's Certification of Title III Expenditures and Unobligated Funds	Implemented

*Denning, Downey and Associates, CPAs, P.C.*

March 26, 2015