

**CUSTER COUNTY  
MILES CITY, MONTANA  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

2810 CENTRAL AVENUE, SUITE B  
BILLINGS, MONTANA 59102  
(406) 252-6230  
FAX (406) 245-6922

TABLE OF CONTENTS

	<u>Page No.</u>
ORGANIZATION.....	1
INDEPENDENT AUDITOR'S REPORT .....	2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion & Analysis .....	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position .....	8
Statement of Activities .....	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13
Statement of Net Position - Proprietary Funds.....	14
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds .....	15
Statement of Cash Flows - Proprietary Funds .....	16
Statement of Net Position - Fiduciary Funds.....	17
Statement of Changes in Net Position - Fiduciary Fund .....	18
Notes to Basic Financial Statements.....	19
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
General Fund .....	33
Public Safety Fund .....	34
RID 1A Fund .....	35
PILT Fund .....	36
Notes to Required Supplementary Information .....	37
Schedule of Funding Progress-Other Post Employment Benefits .....	38
OTHER SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards .....	39
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS .....	42
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	44
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 .....	46
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	48
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS .....	53

CUSTER COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Keith Holmlund	Board Chairman
Kevin Krausz	Commissioner
Vicki Hamilton	Commissioner

ELECTED OFFICIALS

Linda Corbett	County Clerk and Recorder
Tara Moorehead	County Treasurer
Tony Harbaugh	County Sheriff/Coroner
Wyatt Glade	County Attorney
Doug Ellingson	County Superintendent
Hazel Parker	Clerk of District Court
Donald Neese	Justice of the Peace
Amber Trenka	Public Administrator

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B  
BILLINGS, MONTANA 59102  
(406) 252-6230  
FAX (406) 245-6922

## INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners  
Custer County  
Miles City, Montana

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Basis for Qualified Opinions

Because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities, we were unable to form an opinion regarding the amounts at which inventory was recorded in the governmental activities and the aggregate remaining fund information.

### Qualified Opinions

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government'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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

*Olmstead & Associates, PC*

Billings, Montana  
November 25, 2014

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of Custer County's financial performance provides an overview of the government's financial activities for the year ended June 30, 2014. Please read the information here in conjunction with our financial statements and footnotes.

- The assets of Custer County exceeded its liabilities at the close of fiscal year June 30, 2014 by \$8,554,612. Of this amount, \$1,874,585 is restricted and \$5,071,599 was our net investment in capital assets.
- The County's total net position decreased by \$529,288 as a result of this year's operations.
- The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$42,049, while actual expenditures were less than budgeted appropriations by \$263,258.

#### USING THIS AUDIT REPORT

This audit report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the government as a whole and present a longer-term view of the finances. The fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements also report the government's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the government acts solely as a trustee or agent for the benefit of those outside of the government.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

These two statements report net position and changes in it. You can think of net position—the difference between assets and liabilities—as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the property tax base and the condition of the capital assets, to assess the overall health.

In the statement of net position and the statement of activities, our government is divided into two kinds of activities:

**Governmental activities**—Basic services are reported here, including general government, public safety, public works and culture and recreation. Property taxes and state and federal grants finance most of these activities.

**Business-type activities**—Fees are charged to customers to help cover all or most of the cost of the services provided. Solid waste services are reported here.

**Fund financial statements** The fund financial statements provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and/or by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds:

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. 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 cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations.

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

**Proprietary funds:**

Fees are charged to customers for the services provided—whether to outside customers or to other units of the government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other programs and activities—such as the data processing fund.

**Fiduciary funds:**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the same basis of accounting as proprietary funds. We exclude these activities from the other financial statements because we cannot use these assets to finance our operations. We are responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE GOVERNMENT AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator, of a government's financial position. The assets of Custer County exceeded its liabilities at the close of fiscal year June 30, 2014 by \$8,554,612. Of this amount, \$2,147,081 is restricted and \$5,071,599 was the net investment in capital assets. Business-type activities restricted net position represents resources that are subject to external restrictions on how they may be used. The \$272,496 is related to the landfill closure/post closure care trust. The money is set aside to satisfy the financial assurance requirements established by the EPA. The remaining restricted net position for the governmental activities is also subject to external resources on how they are used.

The County's total net position decreased \$529,288, as a result of this year's operations. Net position for our governmental activities decreased \$604,167, which represents eleven percent. The net position for the business-type activities increased \$74,879 which can be attributable to a \$20 increase per household in prior years for the annual solid waste assessment. The increase was put in place to help fund the expansion of our landfill and set aside cash for the closure and postclosure care of our landfill.

The following net position and changes in net position schedules provide summaries of the county's governmental and business-type activities.

NET POSITION:	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 10,742,814	\$ 3,555,497	\$ 3,742,635	\$ 3,436,072	\$ 14,485,449	\$ 6,991,569
Capital assets	5,551,608	4,436,713	959,215	1,041,323	6,510,823	5,478,036
<b>Total assets</b>	<b>16,294,422</b>	<b>7,992,210</b>	<b>4,701,850</b>	<b>4,477,395</b>	<b>20,996,272</b>	<b>12,469,605</b>
Other liabilities	506,478	74,637	50,659	7,365	557,137	82,002
Long-term liabilities	10,883,863	736,889	1,000,660	894,378	11,884,523	1,631,267
<b>Total liabilities</b>	<b>11,390,341</b>	<b>811,526</b>	<b>1,051,319</b>	<b>901,743</b>	<b>12,441,660</b>	<b>1,713,269</b>
<b>Net position:</b>						
Net Investment in capital assets	4,112,384	4,064,391	959,215	1,041,323	5,071,599	5,105,714
Restricted	1,874,585	1,847,186	272,496	276,781	2,147,081	2,123,967
Unrestricted	(1,082,888)	1,269,107	2,418,820	2,257,548	1,335,932	3,526,655
	<b>\$ 4,904,081</b>	<b>\$ 7,180,684</b>	<b>\$ 3,650,531</b>	<b>\$ 3,575,652</b>	<b>\$ 8,554,612</b>	<b>\$ 10,756,336</b>

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 971,989	\$ 1,058,864	\$ 733,216	\$ 739,546	\$ 1,705,205	\$ 1,798,410
Operating grants and contributions	2,153,367	1,422,025	-	-	2,153,367	1,422,025
Capital grants and contributions	176,000	58,000	-	-	176,000	58,000
<b>General revenues:</b>						
Taxes	3,769,194	3,578,246	-	-	3,769,194	3,578,246
Licenses and permits	3,420	4,025	-	-	3,420	4,025
Intergovernmental	1,165,595	1,028,797	-	-	1,165,595	1,028,797
Interest	30,747	24,396	16,311	12,571	47,058	36,967
Miscellaneous	62,739	90,823	-	-	62,739	90,823
Gain on disposal of capital assets	-	25,140	-	-	-	25,140
<b>Total revenues</b>	<b>8,333,051</b>	<b>7,290,316</b>	<b>749,527</b>	<b>752,117</b>	<b>9,082,578</b>	<b>8,042,433</b>
<b>Expenses:</b>						
General government	1,962,155	1,765,841	-	-	1,962,155	1,765,841
Public safety	1,987,012	2,177,999	-	-	1,987,012	2,177,999
Public works	3,188,402	1,449,371	-	-	3,188,402	1,449,371
Public health	1,012,114	1,106,467	-	-	1,012,114	1,106,467
Social and economic services	302,921	306,771	-	-	302,921	306,771
Culture and recreation	446,737	413,043	-	-	446,737	413,043
Housing and community development	25,239	24,323	-	-	25,239	24,323
Other current charges	14,548	2,610	-	-	14,548	2,610
Solid Waste	-	-	666,648	578,321	666,648	578,321
Interest on long-term debt	6,090	4,066	-	-	6,090	4,066
<b>Total expenses</b>	<b>8,945,218</b>	<b>7,250,491</b>	<b>666,648</b>	<b>578,321</b>	<b>9,611,866</b>	<b>7,828,812</b>
<b>Change in net position before transfers</b>	<b>(612,167)</b>	<b>39,825</b>	<b>82,879</b>	<b>173,796</b>	<b>(529,288)</b>	<b>213,621</b>
<b>Transfers</b>	<b>8,000</b>	<b>8,000</b>	<b>(8,000)</b>	<b>(8,000)</b>	<b>-</b>	<b>-</b>
<b>Change in net position</b>	<b>(604,167)</b>	<b>47,825</b>	<b>74,879</b>	<b>165,796</b>	<b>(529,288)</b>	<b>213,621</b>
<b>Net position, beginning</b>	<b>7,180,684</b>	<b>7,132,859</b>	<b>3,575,652</b>	<b>3,409,856</b>	<b>10,756,336</b>	<b>10,542,715</b>
<b>Prior period adjustments</b>	<b>(1,672,436)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,672,436)</b>	<b>-</b>
<b>Net position, ending</b>	<b>\$ 4,904,081</b>	<b>\$ 7,180,684</b>	<b>\$ 3,650,531</b>	<b>\$ 3,575,652</b>	<b>\$ 8,554,612</b>	<b>\$ 10,756,336</b>

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detailed information about the major (most significant) funds. The general fund is always reported as a major fund. Governments may choose to report other governmental and enterprise funds as major funds, even though they do not meet this test. To be reported as a major fund, a fund must meet each of the two following criteria:

Total assets, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds). The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. At the end of the fiscal year, fund balance was unassigned (\$492,366). Overall fund balance increased \$86,948. The increase resulted from not spending the entire general fund budget.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. The public safety fund fund balance increased \$146,816. The increase can be attributable to a transfer in from the PILT fund.

CUSTER COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The PILT (payments in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures made from the fund are at the discretion of the Board of County Commissioners. During fiscal year 2014, resources from the PILT fund were distributed to other funds to fund those other fund's budgets. Overall fund balance decreased \$103,811. The decrease occurred because of the increase in transfers to the public safety fund.

The RID #1A fund accounts for resources accumulated and payments made for utility infrastructure improvements. At the end of the fiscal year, fund balance of the RID #1A fund was (\$12,091).

The Jail Construction fund accounts for the bond proceeds and payments made for the construction of a new detention center.

Net position for the solid waste fund increased \$74,879. The increase can be attributed to a \$20 increase per household in prior years for the annual solid waste assessment. The increase was put in place to help fund the expansion of our landfill and set aside cash for the closure and postclosure care of our landfill.

General Fund Budgetary Highlights:

The general fund's original budgeted amounts were increased for various unanticipated revenues and expenditures. Actual revenues were more than budgeted revenues by \$42,049, while actual expenditures were less than budgeted appropriations by \$263,258.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Custer County's net investment in capital assets, as of June 30, 2014, was \$5,071,599. This investment in capital assets includes property, buildings, improvements, machinery and equipment and infrastructure (e.g., roads, bridges, sidewalks and similar items). The County has elected not to report major infrastructure assets retroactively. For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability generally increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2014 was \$301,148. Other debt outstanding consists of other post employment benefits, GO bonds, SID bonds and notes payable, all with various maturities.

**THE GOVERNMENT'S FUTURE**

The following factors were considered in preparing the County Budget for FY 2014-15.

Custer County Employees have not had a raise in wages for two years, so wages were a priority for this year's budget.

Custer County continues to send prisoners to Glasgow, a 400 mile round trip, due to the closure of our Jail. Renting bed space and transportation costs are decreasing the County's cash and PILT reserves. March 2015 is the target date for opening the new Custer County Detention Center.

The uncertainty of PILT money is a constant concern. There is a lack of funds and other road and bridge problems continue to plague the Road Dept. High energy and fuel costs continue to be a major concern for road, fairgrounds, sheriff and maintenance depts.

Progress continues on Fairground's buildings and grounds repair. There are issues with the jury room that an architect is checking into and noise cancelling windows have been recommended for the courtroom. The chiller for the courthouse air conditioning system is in need of replacement. A more efficient boiler and energy efficient windows have been recommended by heating experts.

The Tussler Bridge crosses the Yellowstone River east of Miles City. This was a Milwaukee RR bridge, and was given to Custer County for vehicle use between Miles City and Kinsey. There was an accident on this bridge, and as a result the commissioners closed the bridge until minor repairs could be made. The bridge is now open, but is in need of major repairs estimated to cost over \$100,000.

With the Detention Center expansion parking spaces will be minimized. Future land purchase may be necessary.

A planning committee made up of community leaders has been formed to advise the commissioners and planning board of local issues, and help solve area problems.

Impacts from coal and oil production are happening in our area. The commissioners are working closely with our economic development and planning committee on how best to handle the situation.

CUSTER COUNTY  
STATEMENT OF NET POSITION  
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 5,023,341	\$ 1,122,362	\$ 6,145,703
Investments	4,185,882	1,109,406	5,295,288
Receivables:			
Taxes and assessments	266,449	10,106	276,555
Governments	1,067,441	-	1,067,441
Solid waste	-	18,605	18,605
Cemetery	9,919	-	9,919
Other	21,958	-	21,958
Inventories	167,824	-	167,824
Restricted assets:			
Cash and equivalents	-	333,654	333,654
Investments	-	1,148,502	1,148,502
Capital assets:			
Land and construction in progress	1,074,170	69,621	1,143,791
Capital assets, net of accumulated depreciation	4,477,438	889,594	5,367,032
<b>Total assets</b>	<b>16,294,422</b>	<b>4,701,850</b>	<b>20,996,272</b>
<b>LIABILITIES</b>			
Accounts payable-vendors	506,478	50,659	557,137
Long-term liabilities:			
Due within one year:			
Notes, bonds and capital leases	334,837	-	334,837
Compensated absences	30,115	-	30,115
Due in more than one year:			
Notes, bonds and capital leases	8,093,391	-	8,093,391
Compensated absences	271,033	-	271,033
Landfill closure/postclosure care payable	-	1,000,660	1,000,660
Other post employment benefits	2,154,487	-	2,154,487
<b>Total liabilities</b>	<b>11,390,341</b>	<b>1,051,319</b>	<b>12,441,660</b>
<b>NET POSITION</b>			
Net investment in capital assets	4,112,384	959,215	5,071,599
Restricted for:			
Landfill closure/postclosure care	-	272,496	272,496
General government	354,745	-	354,745
Public safety	472,964	-	472,964
Public works	662,114	-	662,114
Public health	63,837	-	63,837
Social and economic	25,785	-	25,785
Culture and recreation	51,476	-	51,476
Housing and community development	3,256	-	3,256
Capital projects	226,008	-	226,008
Debt service	14,400	-	14,400
Unrestricted	(1,082,888)	2,418,820	1,335,932
<b>Total net position</b>	<b>\$ 4,904,081</b>	<b>\$ 3,650,531</b>	<b>\$ 8,554,612</b>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 1,962,155	\$ 184,916	\$ 8,359	\$ -	\$ (1,768,880)	\$ -	\$ (1,768,880)
Public safety	1,987,012	181,656	236,794	149,000	(1,419,562)	-	(1,419,562)
Public works	3,188,402	124,048	1,422,969	-	(1,641,385)	-	(1,641,385)
Public health	1,012,114	177,977	363,144	-	(470,993)	-	(470,993)
Social and economic services	302,921	47,928	122,101	-	(132,892)	-	(132,892)
Culture and recreation	446,737	255,464	-	27,000	(164,273)	-	(164,273)
Housing and community development	25,239	-	-	-	(25,239)	-	(25,239)
Other current charges	14,548	-	-	-	(14,548)	-	(14,548)
Interest on long-term debt	6,090	-	-	-	(6,090)	-	(6,090)
<b>Total governmental activities</b>	<b>8,945,218</b>	<b>971,989</b>	<b>2,153,367</b>	<b>176,000</b>	<b>(5,643,862)</b>	<b>-</b>	<b>(5,643,862)</b>
<b>Business-type activities:</b>							
Solid waste	666,648	733,216	-	-	-	66,568	66,568
<b>Total business-type activities</b>	<b>666,648</b>	<b>733,216</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,568</b>	<b>66,568</b>
<b>Total</b>	<b>\$ 9,611,866</b>	<b>\$ 1,705,205</b>	<b>\$ 2,153,367</b>	<b>\$ 176,000</b>	<b>(5,643,862)</b>	<b>66,568</b>	<b>(5,577,294)</b>
<b>General revenues:</b>							
Property taxes					3,769,194	-	3,769,194
Licenses and permits					3,420	-	3,420
Intergovernmental					1,165,595	-	1,165,595
Unrestricted investment earnings					30,747	16,311	47,058
Miscellaneous					62,739	-	62,739
Transfers					8,000	(8,000)	-
<b>Total general revenues and transfers</b>					<b>5,039,695</b>	<b>8,311</b>	<b>5,048,006</b>
<b>Change in net position</b>					<b>(604,167)</b>	<b>74,879</b>	<b>(529,288)</b>
<b>Net position - beginning</b>					<b>7,180,684</b>	<b>3,575,652</b>	<b>10,756,336</b>
<b>Prior period adjustments</b>					<b>(1,672,436)</b>	<b>-</b>	<b>(1,672,436)</b>
<b>Net position - ending</b>					<b>\$ 4,904,081</b>	<b>\$ 3,650,531</b>	<b>\$ 8,554,612</b>

CUSTER COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Public Safety	PILT	RID 1A	Jail Construction	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 193,852	\$ 176,934	\$ 276,110	\$ -	\$ 3,674,235	\$ 684,576	\$ 5,005,707
Investments	161,535	147,436	230,079	-	3,061,689	570,449	4,171,188
Receivables:							
Taxes and assessments	74,992	76,879	-	-	-	114,578	266,449
Governments	149,000	-	-	888,265	-	30,176	1,067,441
Cemetery	-	-	-	-	-	9,919	9,919
Other	-	17,318	-	-	-	4,640	21,958
Due from other funds	-	-	509,635	-	-	-	509,635
Inventories	-	-	-	-	-	167,824	167,824
<b>Total assets</b>	<b>\$ 579,379</b>	<b>\$ 418,567</b>	<b>\$ 1,015,824</b>	<b>\$ 888,265</b>	<b>\$ 6,735,924</b>	<b>\$ 1,582,162</b>	<b>\$ 11,220,121</b>
<b>LIABILITIES</b>							
Accounts payable-vendors	\$ 12,021	\$ 25,641	\$ -	\$ 390,721	\$ 27,420	\$ 50,675	\$ 506,478
Due to other funds	-	-	-	509,635	-	-	509,635
<b>Total liabilities</b>	<b>12,021</b>	<b>25,641</b>	<b>-</b>	<b>900,356</b>	<b>27,420</b>	<b>50,675</b>	<b>1,016,113</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue-taxes and assessments	74,992	76,879	-	-	-	114,578	266,449
<b>Total deferred inflows of resources</b>	<b>74,992</b>	<b>76,879</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,578</b>	<b>266,449</b>
<b>FUND BALANCES (DEFICITS)</b>							
Nonspendable:							
Inventory	-	-	-	-	-	167,824	167,824
Restricted for:							
General government	-	-	-	-	-	313,160	313,160
Public safety	-	316,047	-	-	-	79,038	395,085
Public works	-	-	-	-	-	474,892	474,892
Public health	-	-	-	-	-	28,092	28,092
Social and economic services	-	-	-	-	-	17,138	17,138
Culture and recreation	-	-	-	-	-	44,548	44,548
Housing and community development	-	-	-	-	-	1,981	1,981
Capital projects	-	-	-	-	6,708,504	226,008	6,934,512
Debt service	-	-	-	-	-	14,400	14,400
Committed for:							
General government	-	-	1,015,824	-	-	8,095	1,023,919
Culture and recreation	-	-	-	-	-	42,121	42,121
Unassigned	492,366	-	-	(12,091)	-	(388)	479,887
<b>Total fund balances (deficits)</b>	<b>492,366</b>	<b>316,047</b>	<b>1,015,824</b>	<b>(12,091)</b>	<b>6,708,504</b>	<b>1,416,909</b>	<b>9,937,559</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 579,379</b>	<b>\$ 418,567</b>	<b>\$ 1,015,824</b>	<b>\$ 888,265</b>	<b>\$ 6,735,924</b>	<b>\$ 1,582,162</b>	<b>\$ 11,220,121</b>

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

Total fund balances, governmental funds	\$ 9,937,559
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position.	5,551,608
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	266,449
Some liabilities, (such as compensated absences, other post employment benefits, notes payable, bonds payable and capital leases), are not due and payable in the current period and, therefore, are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.	(10,876,224)
Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	<u>24,689</u>
Net position of governmental activities	<u>\$ 4,904,081</u>

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

	General	Public Safety	PILT	RID 1A	Jail Construction	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes/assessments	\$ 1,304,038	\$ 1,015,057	\$ -	\$ -	\$ -	\$ 1,512,075	\$ 3,831,170
Fines and forfeitures	93,559	-	-	-	-	16,327	109,886
Licenses and permits	3,000	420	-	-	-	-	3,420
Intergovernmental	325,032	148,720	849,852	1,217,407	-	918,843	3,459,854
Charges for services	169,635	74,631	-	-	-	499,319	743,585
Investment earnings	29,312	5	-	-	-	1,430	30,747
Miscellaneous	29,586	4,565	-	-	-	78,602	112,753
<b>Total revenues</b>	<b>1,954,162</b>	<b>1,243,398</b>	<b>849,852</b>	<b>1,217,407</b>	<b>-</b>	<b>3,026,596</b>	<b>8,291,415</b>
<b>EXPENDITURES</b>							
Current:							
General government	1,374,600	-	-	-	-	386,319	1,760,919
Public safety	37,600	1,366,379	-	-	-	374,009	1,777,988
Public works	-	-	-	1,613,598	-	1,333,186	2,946,784
Public health	235,733	1,003	-	-	-	778,292	1,015,028
Social and economic services	20,430	-	1,500	-	-	257,426	279,356
Culture and recreation	44,235	-	2,000	-	-	344,112	390,347
Housing and community development	8,319	-	-	-	-	16,920	25,239
Conservation of natural resources	-	-	-	-	-	-	-
Other current charges	-	-	-	-	-	14,548	14,548
Debt service:							
Principal	-	-	-	-	-	77,762	77,762
Interest and other charges	-	-	-	-	-	6,090	6,090
Capital outlay	149,000	33,869	-	-	1,052,664	210,253	1,445,786
<b>Total expenditures</b>	<b>1,869,917</b>	<b>1,401,251</b>	<b>3,500</b>	<b>1,613,598</b>	<b>1,052,664</b>	<b>3,798,917</b>	<b>9,739,847</b>
Excess (deficiency) of revenues over expenditures	84,245	(157,853)	846,352	(396,191)	(1,052,664)	(772,321)	(1,448,432)
<b>OTHER FINANCING SOURCES (USES)</b>							
Long-term debt issued	-	-	-	280,500	7,500,000	110,000	7,890,500
Sale of capital assets	-	4,669	-	-	-	-	4,669
Bond premium	-	-	-	-	261,168	-	261,168
Transfers in	36,249	300,000	-	118,000	-	845,783	1,300,032
Transfers out	(33,546)	-	(950,163)	(14,400)	-	(293,923)	(1,292,032)
<b>Total other financing sources (uses)</b>	<b>2,703</b>	<b>304,669</b>	<b>(950,163)</b>	<b>384,100</b>	<b>7,761,168</b>	<b>661,860</b>	<b>8,164,337</b>
<b>Net change in fund balances</b>	<b>86,948</b>	<b>146,816</b>	<b>(103,811)</b>	<b>(12,091)</b>	<b>6,708,504</b>	<b>(110,461)</b>	<b>6,715,905</b>
Fund balances - beginning	405,418	169,231	1,119,635	-	-	1,527,370	3,221,654
<b>Fund balances (deficits) - ending</b>	<b>\$ 492,366</b>	<b>\$ 316,047</b>	<b>\$ 1,015,824</b>	<b>\$ (12,091)</b>	<b>\$ 6,708,504</b>	<b>\$ 1,416,909</b>	<b>\$ 9,937,559</b>

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

Net change in fund balances - total governmental funds	\$ 6,715,905
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report outlay for capital assets as expenditures because such outlay use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period.</p>	
This is the amount by which capital outlay (\$1,445,786) exceeded depreciation (\$349,227) in the current period.	1,096,559
<p>Governmental funds report the entire net sales price from the sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset. Thus, the change in net position differs from the change in fund balance by the book value of the asset disposed of.</p>	
	(8,664)
<p>Contributed capital assets.</p>	
	27,000
<p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.</p>	
	14,636
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which long term debt issued exceeded debt principal repayments.</p>	
	(8,073,906)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>	
Compensated absences	82,121
Other post employment benefits	(482,051)
<p>Internal service funds are used by management to charge the costs of certain activities, such as data processing, to individual funds. The change in net position of the internal service funds is reported with the governmental activities.</p>	
	24,233
Change in net position of governmental activities	\$ (604,167)

CUSTER COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Solid Waste</u>	<u>Internal Service Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,122,362	\$ 17,634
Investments	1,109,406	14,694
Receivables:		
Taxes and assessments	10,106	-
Solid waste	18,605	-
Total current assets	<u>2,260,479</u>	<u>32,328</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	333,654	-
Investments	1,148,502	-
	<u>1,482,156</u>	<u>-</u>
Capital assets:		
Land and construction in progress	69,621	-
Buildings and improvements	2,056,024	-
Less accumulated depreciation	(1,166,430)	-
	<u>959,215</u>	<u>-</u>
Total non-current assets	<u>2,441,371</u>	<u>-</u>
Total assets	<u>4,701,850</u>	<u>32,328</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable-vendors	50,659	-
Compensated absences	-	764
Total current liabilities	<u>50,659</u>	<u>764</u>
Non-current liabilities:		
Compensated absences	-	6,875
Landfill closure/postclosure care payable	1,000,660	-
Total non-current liabilities	<u>1,000,660</u>	<u>6,875</u>
Total liabilities	<u>1,051,319</u>	<u>7,639</u>
<b>NET POSITION</b>		
Net investment in capital assets	959,215	-
Restricted for landfill closure/postclosure care	272,496	-
Unrestricted	2,418,820	24,689
Total net position	<u>\$ 3,650,531</u>	<u>\$ 24,689</u>

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

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
<b>REVENUES</b>		
Charges for services	\$ 230,928	\$ 159,192
Taxes and assessments	502,288	-
<b>Total operating revenues</b>	<b>733,216</b>	<b>159,192</b>
<b>OPERATING EXPENSES</b>		
Personal services	11,400	100,096
Supplies	156	1,190
Purchased services	431,991	33,173
Fixed charges	4,000	500
Closure/postclosure costs	106,282	-
Depreciation	111,819	-
<b>Total operating expenses</b>	<b>665,648</b>	<b>134,959</b>
<b>Operating income</b>	<b>67,568</b>	<b>24,233</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment earnings	16,311	-
Grants and contributions to others	(1,000)	-
<b>Total non-operating revenues (expenses)</b>	<b>15,311</b>	<b>-</b>
<b>Income before transfers</b>	<b>82,879</b>	<b>24,233</b>
Transfers out	(8,000)	-
<b>Change in net position</b>	<b>74,879</b>	<b>24,233</b>
Net position - beginning	3,575,652	456
<b>Net position - ending</b>	<b>\$ 3,650,531</b>	<b>\$ 24,689</b>

CUSTER COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

	Business-type Activities	Governmental Activities
	Solid Waste	Internal Service Fund
<b>CASH FLOWS FROM OPERATIONS:</b>		
Cash received from customers	\$ 732,027	\$ -
Cash received from interfund services	-	159,192
Cash paid to employees	(11,400)	(99,394)
Cash paid to suppliers for goods and services	(392,853)	(34,863)
Net cash provided by operating activities	327,774	24,935
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Cash paid for grants and contributions to others	(1,000)	-
Cash used for interfund transfer	(8,000)	-
Net cash used by noncapital financing activities	(9,000)	-
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(29,711)	-
Net cash used by capital financing activities	(29,711)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in investments	123,904	(10,635)
Interest received	16,311	-
Net cash provided (used) by investing activities	140,215	(10,635)
Change in cash and cash equivalents	429,278	14,300
Cash and cash equivalents - beginning (enterprise fund includes restricted cash and cash equivalents of \$226,881)	1,026,738	3,334
Cash and cash equivalents - ending (enterprise fund includes restricted cash and cash equivalents of \$333,654)	\$ 1,456,016	\$ 17,634
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 67,568	\$ 24,233
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	111,819	-
Closure/post closure costs	106,282	-
Decrease in taxes/assessments receivable	12,338	-
Increase in solid waste receivable	(13,527)	-
Increase in accounts payable	43,294	-
Increase in compensated absences	-	702
Net cash provided by operating activities	\$ 327,774	\$ 24,935

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

	<u>External Investment Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,137,469	\$ 824,317
Investments	5,451,510	-
Taxes and assessments receivables	-	616,135
	<u>11,588,979</u>	<u>1,440,452</u>
<b>Total assets</b>		<b><u>\$ 1,440,452</u></b>
<b>LIABILITIES</b>		
Accounts payable:		
Accounts payable	-	\$ 448,176
Due to special districts	-	9,963
Due to state	-	345,916
Due to schools	-	404,711
Due to cities/towns	-	231,686
	<u>-</u>	<u>1,440,452</u>
<b>Total liabilities</b>		<b><u>\$ 1,440,452</u></b>
<b>NET POSITION</b>		
Net position held in trust	<u>\$ 11,588,979</u>	

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

	External Investment Trust Fund
<b>ADDITIONS</b>	
Contributions	\$ 7,616,244
Investment earnings	47,641
Total additions	7,663,885
<b>DEDUCTIONS</b>	
Distributions to participants	6,370,624
Administrative	2,382
Total deductions	6,373,006
Change in net position	1,290,879
Net position - beginning	10,298,100
Net position - ending	\$ 11,588,979

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide financial statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major governmental funds:

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

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

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

The PILT fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Payments made from the fund are at the discretion of the Board of County Commissioners.

The RID 1A fund accounts for resources accumulated and payments made for utility infrastructure improvements.

The jail construction fund (capital projects) accounts for the bond proceeds and payments made for the construction of a new detention center.

The government reports the following major proprietary fund:

The solid waste fund accounts for the activities of the government's sanitation and landfill services.

Additionally, the government reports the following fund types:

Internal service funds account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

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

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

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

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 46% of the investment pool belongs to these districts.

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

The government charges a 5% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was \$4,735.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

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

#### Inventories

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased.

#### Restricted Assets

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance the closure and postclosure care costs of its landfill. Additionally, dollars have been set aside by management for replacement and depreciation. These amounts are reported as restricted assets.

#### Capital Assets

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

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no capitalized interest for the year ended June 30, 2014.

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Assets	Years
Infrastructure	100
Building and improvements	10-100
Machinery and equipment	5-10

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are recognized as an expense in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

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

Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

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

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

government-wide and **proprietary fund** financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the Clerk and Recorder, in conjunction with the County Commissioners, to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The RID 1A (\$12,091) and buckle up (\$388) funds had deficit fund balances as of June 30, 2014. The deficits occurred because current year expenditures exceeded current year revenues. The deficits are expected to be eliminated through general fund contributions.

NOTE 3. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 9,209,223
Business-type activities	3,713,924
Fiduciary funds	<u>12,413,296</u>
	<u>\$ 25,336,443</u>

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 1,500	\$ -	\$ 1,500
Cash in banks:			
Demand deposits	12,651,023	-	12,651,023
Savings deposits	6,680	-	6,680
Time deposits	-	1,750,000	1,750,000
Brokerage:			
Money market	124,654	-	124,654
U.S. Government securities	-	10,145,300	10,145,300
Short-term Investment Program (STIP)	657,286	-	657,286
	<u>\$ 13,441,143</u>	<u>\$ 11,895,300</u>	<u>\$ 25,336,443</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$13,353,443 of the government's bank balance of \$15,361,152 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 5,253,443
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>8,100,000</u>
	<u>\$ 13,353,443</u>

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

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

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
Time deposits	.55-1.65%	Various	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	14.71%
U.S. government securities	.25-1.45%	Various	10,150,000	10,145,300	10,146,843	85.29%
				<u>\$ 11,895,300</u>	<u>\$ 11,896,843</u>	<u>100.00%</u>

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

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

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

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Brokers:					
U.S. Government securities	\$ 2,500,000	\$ -	\$ 7,645,300	\$ 10,145,300	\$ 10,146,843
Money Markets	124,654	-	-	124,654	124,654
	<u>\$ 2,624,654</u>	<u>\$ -</u>	<u>\$ 7,645,300</u>	10,269,954	10,271,497
Uncategorized:					
STIP				657,286	657,286
				<u>\$ 10,927,240</u>	<u>\$ 10,928,783</u>

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

	Internal	External	Total
Net position - beginning of year	\$ 7,029,027	\$ 10,298,100	\$ 17,327,127
Contributions from participants	6,742,851	7,616,244	14,359,095
Investment earnings	47,058	47,641	94,699
Administrative fees	(2,353)	(2,382)	(4,735)
Distributions to participants	(69,119)	(6,370,624)	(6,439,743)
Net position - end of year	<u>\$ 13,747,464</u>	<u>\$ 11,588,979</u>	<u>\$ 25,336,443</u>

Capital Assets

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 114,111	\$ -	\$ -	\$ 114,111
Construction-in-progress	69,250	913,309	(22,500)	960,059
Total capital assets, not being depreciated	<u>183,361</u>	<u>913,309</u>	<u>(22,500)</u>	<u>1,074,170</u>
Capital assets, being depreciated				
Buildings/improvements	3,335,924	42,527	-	3,378,451
Improvements other than buildings	324,507	-	-	324,507
Machinery and equipment	3,655,720	710,258	(297,407)	4,068,571
Infrastructure	663,040	-	-	663,040
Total capital assets, being depreciated	<u>7,979,191</u>	<u>752,785</u>	<u>(297,407)</u>	<u>8,434,569</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,616,482)	(77,015)	-	(1,693,497)
Improvements other than buildings	(72,106)	(19,023)	-	(91,129)
Machinery and equipment	(2,006,569)	(243,086)	117,935	(2,131,720)
Infrastructure	(30,682)	(10,103)	-	(40,785)
Total accumulated depreciation	<u>(3,725,839)</u>	<u>(349,227)</u>	<u>117,935</u>	<u>(3,957,131)</u>
Total capital assets, being depreciated, net	<u>4,253,352</u>	<u>403,558</u>	<u>(179,472)</u>	<u>4,477,438</u>
Governmental activities capital assets, net	<u>\$ 4,436,713</u>	<u>\$ 1,316,867</u>	<u>\$ (201,972)</u>	<u>\$ 5,551,608</u>

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 34,038
Public safety	86,211
Public works	161,784
Social and economic	3,888
Culture and recreation	14,898
Housing and community development	48,408
Total depreciation-governmental activities	\$ 349,227

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 1	\$ -	\$ -	\$ 1
Construction-in-progress	39,909	29,711	-	69,620
Total capital assets, not being depreciated	39,910	29,711	-	69,621
Capital assets, being depreciated				
Buildings and systems	70,965	-	-	70,965
Improvements other than buildings	1,985,059	-	-	1,985,059
Total capital assets, being depreciated	2,056,024	-	-	2,056,024
Less accumulated depreciation for:				
Buildings and systems	(18,617)	(1,739)	-	(20,356)
Improvements other than buildings	(1,035,994)	(110,080)	-	(1,146,074)
Total accumulated depreciation	(1,054,611)	(111,819)	-	(1,166,430)
Total capital assets, being depreciated, net	1,001,413	(111,819)	-	889,594
Business-type activities capital assets, net	\$ 1,041,323	\$ (82,108)	\$ -	\$ 959,215

Depreciation expense was charged as follows:

Business-type activities:	
Solid Waste	\$ 111,819

Interfund Transfers and Interfund Loans

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
Governmental activities:			
General	\$ 36,249	\$ (33,546)	\$ 2,703
RID 1A	118,000	(14,400)	103,600
PILT	-	(950,163)	(950,163)
Public Safety	300,000	-	300,000
Nonmajor governmental funds	845,783	(293,923)	551,860
	\$ 1,300,032	\$ (1,292,032)	\$ 8,000
Business-type activities:			
Solid Waste	\$ -	\$ (8,000)	\$ (8,000)

Transfers consist of funding capital improvements, grant matching and closing inactive funds. As of June 30, 2014, the RID 1A fund owed the PILT fund \$509,635. The loan was made to cover the cash deficit until accrued revenues are received in fiscal year 2015. The balance is expected to be repaid next year.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Leases

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

	Governmental Activities
Machinery and equipment	\$ 93,420
Less: accumulated depreciation	(12,456)
	\$ 80,964

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

	Year ending June 30,	Governmental Activities
	2015	\$ 18,808
	2016	18,808
	2017	18,808
	2018	9,189
Total minimum lease payments		65,613
Less: amount representing interest		(6,360)
Present value of minimum lease payments		\$ 59,253

Long-Term Debt

Notes payable currently outstanding are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
Rock crusher for road-2008 (1)	\$ 50,000	10 yr	1.00%	\$ 22,904
Harris Creek bridge-2011 (1)	180,000	10 yr	1.00%	120,568
Motor grader-2014 (1)	110,000	5 yr	1.00%	110,000
Motor grader-2011 (1)	120,000	7 yr	1.00%	62,011
Motor grader-2009 (1)	110,000	5 yr	1.00%	11,824
				\$ 327,307

(1) Through INTERCAP. Interest adjusted each February 1, maximum to 15 percent.

Annual debt service requirements to maturity for notes payable are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 73,768	\$ 2,935	\$ 76,703
2016	62,982	2,377	65,359
2017	64,172	1,750	65,922
2018	56,144	1,099	57,243
2019	41,370	98	41,468
2020-2021	28,871	287	29,158
	\$ 327,307	\$ 8,546	\$ 335,853

The government issued \$7,500,000 general obligation bonds in 2014 to provide funds for the acquisition and construction of a detention center. The bonds have a rate of interest of 2 percent to 4.25 percent and are payable in installments of principal over the next 20 years. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding as of June 30, 2014 are \$7,500,000.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 245,000	\$ 290,853	\$ 535,853
2016	300,000	239,172	539,172
2017	305,000	233,172	538,172
2018	310,000	227,073	537,073
2019	320,000	220,873	540,873
2020-2024	1,690,000	1,001,534	2,691,534
2025-2029	1,955,000	741,236	2,696,236
2030-2034	2,375,000	311,312	2,686,312
	<u>\$ 7,500,000</u>	<u>\$ 3,265,225</u>	<u>\$ 10,765,225</u>

The government issued \$280,500 of special assessment bonds in 2014 to provide funds for utility infrastructure improvements. The bonds have a stated rate of interest of 2.5 percent and are payable in equal installments of principal over the next 40 years. Special assessment bond debt service requirements to maturity are as follows:

Year ending June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ -	\$ 7,093	\$ 7,093
2016	4,588	7,020	11,608
2017	4,704	6,904	11,608
2018	4,822	6,786	11,608
2019	4,944	6,664	11,608
2020-2024	26,662	31,378	58,040
2025-2029	30,209	27,831	58,040
2030-2034	34,226	23,814	58,040
2035-2039	38,779	19,261	58,040
2040-2044	43,936	14,104	58,040
2045-2049	49,779	8,261	58,040
2050-2054	37,851	1,896	39,747
	<u>\$ 280,500</u>	<u>\$ 161,012</u>	<u>\$ 441,512</u>

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000	\$ 245,000
Bond premium	-	261,168	-	261,168	-
Special assessment bonds	-	280,500	-	280,500	-
Total bonds payable	-	8,041,668	-	8,041,668	245,000
Capital leases	74,612	-	(15,359)	59,253	16,069
Notes payable	279,710	110,000	(62,403)	327,307	73,768
Compensated absences	382,567	-	(81,419)	301,148	30,115
Governmental activities long-term liabilities	<u>\$ 736,889</u>	<u>\$ 8,151,668</u>	<u>\$ (159,181)</u>	<u>\$ 8,729,376</u>	<u>\$ 364,952</u>

Internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

as part of the governmental activities. At year end, \$7,639 of the internal service fund compensated absences is included in the above amounts. Also, for the governmental activities, notes payable are liquidated by the road and bridge funds. Compensated absences are generally liquidated by the general fund.

Conduit Debt

To provide for the refinancing of existing debt and construction of improvements to the Eastern Montana Community Mental Health Center (EMCMHC), a Montana nonprofit corporation, the County issued Industrial Development Revenue Bonds/Notes amounting to \$850,000. These bonds/notes are special limited obligations of the County payable solely from and secured by payments to be made by EMCMHC under the loan agreement. The bonds/notes do not constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2014, the outstanding balance of the Industrial Development Revenue Bonds/Notes was not available.

Landfill Closure/Postclosure

State and federal laws and regulations require the government to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the government reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,000,660 reported as a landfill closure and postclosure care liability as of June 30, 2014, represents the cumulative amount reported to date based on the use of 24 percent of the estimated capacity of the landfill. The government will recognize the remaining estimated cost of closure and postclosure care of \$487,540 as the remaining estimated capacity of the landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The government is in compliance with the requirements, and, as of June 30, 2014, \$1,273,156 had been set aside for this purpose. The amount set aside is restricted and reported as "restricted net assets." The government expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The following changes occurred in the closure and postclosure care liability during the year ended June 30, 2014:

Balance July 1, 2013	Additions	Subtractions	Balance June 30, 2014
\$ 894,378	\$ 106,282	\$ -	\$ 1,000,660

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Prior Period Adjustments

Prior period adjustments resulted from recording the beginning balance of the other post employment benefit liability.

Interlocal Agreements

The City of Miles City maintains the accounting records for agreements related to the operation of the library, central dispatch, animal control, airport and ambulance. The County levies or makes contributions to the City for these shared services. For the year ended June 30, 2014, the County contributed \$125,330 to the City for these services.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$5.857 million, primarily for construction of a new detention facility.

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

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

Retirement Plans

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

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

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

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

PERS:

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

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

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

	2014	2013	2012
SRS	\$ 91,364	\$ 94,347	\$ 91,947
PERS	356,082	318,358	304,111
	\$ 447,446	\$ 412,705	\$ 396,058

Postemployment Benefits Other Than Pensions

*Plan Description.* The government provides postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility is determined based on the minimum of (1) reaching age 50 with at least 5 years of membership service or (2) reaching 25 years of membership at any age.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

*Funding Policy.* The required contribution is based on pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation.* The government's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The government has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 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 to the plan:

Annual required contribution	\$ 512,713
Interest on net OPEB obligation	25,087
Adjustment to annual required contribution	<u>(55,748)</u>
Annual OPEB cost (expense)	482,052
Contributions made	<u>-</u>
Increase in net OPEB obligation	482,052
Net OPEB obligation - beginning of year	-
Prior period adjustment	<u>1,672,436</u>
Net OPEB obligation - end of year	<u>\$ 2,154,488</u>

The government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and 2013 are as follows:

Year Ending June 30,	Annual OPEB Cost (AOC)	Percentage of Annual AOC Contributed	Net OPEB Obligation (NOO)
2013	\$ 418,109	0%	\$ 1,672,436
2014	482,051	0%	2,154,487

*Funded Status and Funding Progress.* As of July 1, 2013, the Plan was 0% funded. The actuarial accrued liability for benefits was \$2,422,640, and the actuarial value of assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,422,640.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress, which is required to be presented as required supplementary information following the notes to the financial statements, is included in the financial statements.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 62 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the National Center for Health Statistics, including the 2004 U.S. Life Tables for Males and Females. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

*Assumptions About Healthcare Costs:* The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 3.8 percent over the next ten years.

*Other Assumptions and Methods:* The inflation rate was assumed to be 1.5 percent. Based on the historical and expected returns of the government's investments, the investment rate of return was assumed to be 1.5 percent. The UAAL is amortized over a thirty year period using a 1.5 percent interest rate and a 2.8 percent payroll growth rate.

CUSTER COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Taxes/assessments	\$ 1,313,695	\$ 1,313,935	\$ 1,304,038
Fees and fines	79,620	79,620	93,559
Licenses and permits	2,500	2,500	3,000
Intergovernmental	151,926	270,926	325,032
Charges for services	158,032	158,032	169,635
Investment earnings	45,000	45,000	29,312
Miscellaneous	42,100	42,100	29,586
Total revenues	<u>1,792,873</u>	<u>1,912,113</u>	<u>1,954,162</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,730,555	1,651,925	1,374,600
Public safety	60,311	70,311	37,600
Public health	226,939	226,939	235,733
Social and economic services	37,000	37,000	20,430
Culture and recreation	-	-	44,235
Housing and community development	8,000	8,000	8,319
Capital outlay	-	139,000	149,000
Total expenditures	<u>2,062,805</u>	<u>2,133,175</u>	<u>1,869,917</u>
Excess (deficiency) of revenues over expenditures	<u>(269,932)</u>	<u>(221,062)</u>	<u>84,245</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	118,000	136,249	36,249
Transfers out	(30,230)	(33,546)	(33,546)
Total other financing sources (uses)	<u>87,770</u>	<u>102,703</u>	<u>2,703</u>
Net change in fund balance	<u>\$ (182,162)</u>	<u>\$ (118,359)</u>	86,948
Fund balance - beginning			<u>405,418</u>
Fund balance - ending			<u>\$ 492,366</u>

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

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Taxes/assessments	\$ 1,037,228	\$ 1,037,318	\$ 1,015,057
Licenses and permits	800	800	420
Intergovernmental	176,194	176,194	148,720
Charges for services	60,050	63,050	74,631
Investment earnings	10	10	5
Miscellaneous	8,000	8,000	4,565
Total revenues	<u>1,282,282</u>	<u>1,285,372</u>	<u>1,243,398</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	1,636,532	1,639,967	1,366,379
Public health	2,500	2,500	1,003
Capital outlay	36,000	36,200	33,869
Total expenditures	<u>1,675,032</u>	<u>1,678,667</u>	<u>1,401,251</u>
Excess (deficiency) of revenues over expenditures	<u>(392,750)</u>	<u>(393,295)</u>	<u>(157,853)</u>
<b>OTHER FINANCING SOURCES</b>			
Sale of capital assets	-	-	4,669
Transfers in	300,000	300,000	300,000
Total other financing sources	<u>300,000</u>	<u>300,000</u>	<u>304,669</u>
Net change in fund balance	<u>\$ (92,750)</u>	<u>\$ (93,295)</u>	146,816
Fund balance - beginning			<u>169,231</u>
Fund balance - ending			<u>\$ 316,047</u>

CUSTER COUNTY  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 RID 1A Fund  
 For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Intergovernmental	<u>\$ 1,532,447</u>	<u>\$ 1,706,000</u>	<u>\$ 1,217,407</u>
Total revenues	<u>1,532,447</u>	<u>1,706,000</u>	<u>1,217,407</u>
<b>EXPENDITURES</b>			
Current:			
Public works	<u>1,510,800</u>	<u>1,603,043</u>	<u>1,613,598</u>
Total expenditures	<u>1,510,800</u>	<u>1,603,043</u>	<u>1,613,598</u>
Excess (deficiency) of revenues over expenditures	<u>21,647</u>	<u>102,957</u>	<u>(396,191)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term debt issued	-	-	280,500
Transfers in	-	-	118,000
Transfers out	-	-	<u>(14,400)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>384,100</u>
Net change in fund balance	<u>\$ 21,647</u>	<u>\$ 102,957</u>	(12,091)
Fund balance - beginning			<u>-</u>
Fund balance - ending			<u>\$ (12,091)</u>

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
<b>REVENUES</b>			
Intergovernmental	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 849,852</u>
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>849,852</u>
<b>EXPENDITURES:</b>			
Current:			
General government	100	100	-
Social and economic services	1,500	1,500	1,500
Culture and recreation	500	2,000	2,000
Total expenditures	<u>2,100</u>	<u>3,600</u>	<u>3,500</u>
Excess (deficiency) of revenues over expenditures	<u>497,900</u>	<u>496,400</u>	<u>846,352</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	10,000	10,000	-
Transfers out	<u>(930,193)</u>	<u>(950,164)</u>	<u>(950,163)</u>
Total other financing sources (uses)	<u>(920,193)</u>	<u>(940,164)</u>	<u>(950,163)</u>
Net change in fund balance	<u>\$ (422,293)</u>	<u>\$ (443,764)</u>	(103,811)
Fund balance - beginning			<u>1,119,635</u>
Fund balance - ending			<u>\$ 1,015,824</u>

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

CUSTER COUNTY  
 SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS  
 For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2014	\$ -	\$ 2,422,640	\$ 2,422,640	-	\$ 2,898,128	0.835932612
6/30/2013	-	2,386,837	2,386,837	-	2,819,191	0.846638983

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

**OTHER SUPPLEMENTARY INFORMATION**

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
<b>U.S. Department of Transportation:</b>								
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	SRTS 8099(10)	\$ 114,386	\$ -	\$ -	\$ -	\$ -	\$ -
Highway Planning and Construction	20.205	SRTS 8099(10)	11,439	-	-	-	-	-
Highway Planning and Construction	20.205	107083	5,825	-	5,825	5,825	-	-
Subtotal				-	5,825	5,825	-	-
State and Community Highway Safety	20.600	N/A	20,000	-	11,089	12,888	-	(1,799)
State and Community Highway Safety	20.600	N/A	20,000	(1,698)	4,478	2,780	-	-
Subtotal				(1,698)	15,567	15,668	-	(1,799)
Total U.S. Department of Transportation				(1,698)	21,392	21,493	-	(1,799)
<b>U.S. Department of Justice:</b>								
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	16.575	12-V01-91193	18,227	(1,970)	1,970	-	-	-
Crime Victim Assistance	16.575	13-V01-91474	18,417	-	13,802	18,417	-	(4,615)
Total U.S. Department of Justice				(1,970)	15,772	18,417	-	(4,615)
<b>U.S. Department of Housing and Urban Development:</b>								
Passed through the Montana Department of Commerce								
Community Development Block Grant - States Program	14.228	MT-CDBG-12PL-15	60,000	(58,000)	54,720	-	3,280	-
Community Development Block Grant - States Program	14.228	MT-CDBG-ED11-03	397,500	-	-	-	-	-
Community Development Block Grant - States Program	14.228	MT-CDBG-11PF-02	450,000	(21,646)	173,326	176,635	-	(24,955)
Total U.S. Department of Housing and Urban Development				(79,646)	228,046	176,635	3,280	(24,955)
<b>U.S. Department of Homeland Security:</b>								
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Disaster Grants-Public Assistance	97.036	FEMA-4127-DR-MT	147,017	-	-	-	-	-
Disaster Grants-Public Assistance	97.036	FEMA-1996-DR-MT	1,096,960	(51,949)	51,949	-	-	-
Subtotal				(51,949)	51,949	-	-	-
Homeland Security Grant Program	97.067	EMW-2013-SS-00064	149,000	-	-	149,000	-	(149,000)
Subtotal				-	-	149,000	-	(149,000)
Emergency Management Performance Grants	97.042	EMW-2013-SS-00143-S01	15,000	-	12,429	12,429	-	-
Emergency Management Performance Grants	97.042	EMW-2012-SS-00143-S01	33,000	(6,479)	6,479	-	-	-
Subtotal				(6,479)	18,908	12,429	-	-
Total U.S. Department of Homeland Security				(58,428)	70,857	161,429	-	(149,000)
<b>U.S. Department of Commerce:</b>								
Direct Program:								
Investments for Public Works and Economic Development Facilities	11.300	05-01-05332	367,956	-	-	-	-	-
Total U.S. Department of Commerce				-	-	-	-	-
<b>U.S. Department of Health and Human Services:</b>								
Passed through Montana State University:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-093-0	20,000	-	3,750	3,750	-	-
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-004-0	52,283	-	4,068	4,068	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	14-07-3-01-004-0	46,870	-	30,145	30,145	-	-
Subtotal				-	37,963	37,963	-	-

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
Maternal and Child Health Services Block Grant to the States	93.994	14-07-5-01-009-0	12,911	-	10,329	12,911	-	(2,582)
Maternal and Child Health Services Block Grant to the States	93.994	13-07-5-11-011-0	1,195	-	1,195	1,195	-	-
Subtotal				-	11,524	14,106	-	(2,582)
Immunization Grants	93.268	14-07-4-31-109-0	5,648	-	2,824	5,648	-	(2,824)
Immunization Grants	93.268	13-07-4-31-109-0	5,648	(2,824)	2,824	-	-	-
Subtotal				(2,824)	5,648	5,648	-	(2,824)
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.539	14-07-4-31-157-0	10,600	-	5,300	7,422	2,122	-
Subtotal				-	5,300	7,422	2,122	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	14-07-5-11-016-0	20,000	-	3,800	11,981	8,181	-
Subtotal				-	3,800	11,981	8,181	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	13-07-5-31-24-0	215,295	(52,175)	121,392	69,755	538	-
Subtotal				(52,175)	121,392	69,755	538	-
Public Health Emergency Preparedness	93.069	14-07-6-11-013-0	35,372	-	24,707	35,372	10,665	-
Public Health Emergency Preparedness	93.069	13-07-6-11-013-0	42,375	(9,534)	9,536	-	(2)	-
Subtotal				(9,534)	34,243	35,372	10,663	-
Family Planning Services	93.217	13-07-5-11-011-0	67,810	-	2,198	2,198	-	-
Family Planning Services	93.217	13-07-5-11-011-0	62,812	-	62,812	62,812	-	-
Subtotal				-	65,010	65,010	-	-
Passed through Action for Eastern Montana:								
Aging Cluster:								
Special Programs for the Aging-								
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2014-001-02	23,810	-	19,842	23,810	-	(3,968)
Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	2013-001-02	19,851	(2,882)	2,882	-	-	-
Title III, Part C-Nutrition Services	93.045	2013-001-02	47,517	(2,246)	2,246	-	-	-
Title III, Part C-Nutrition Services	93.045	2014-001-02	43,274	-	36,761	43,274	-	(6,513)
Aging Cluster Subtotal				(5,128)	61,731	67,084	-	(10,481)
Title III, Part D-Disease Prevention and Health Promotion Services	93.043	2014-001-02	1,539	-	-	936	-	(936)
Subtotal				-	-	936	-	(936)
National Family Caregiver Support, Title III, Part E	93.052	2014-001-02	9,294	-	7,745	9,294	-	(1,549)
National Family Caregiver Support, Title III, Part E	93.052	2013-001-02	7,932	(1,301)	1,301	-	-	-
Subtotal				(1,301)	9,046	9,294	-	(1,549)
Total U.S. Department of Health and Human Services				(70,962)	355,657	324,571	21,504	(18,372)
<u>U.S. Department of the Interior:</u>								
Direct Programs:								
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0012	50,000	-	30,000	30,000	-	-
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0008	107,380	(14,717)	-	-	14,717	-
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	L09AC15490-0011	73,000	-	26,159	26,411	252	-
Subtotal				(14,717)	56,159	56,411	14,969	-

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
Bankhead Jones Farm Tenant Act	15.999	N/A	4,918	(4,873)	9,791	4,918	-	-
Subtotal				(4,873)	9,791	4,918	-	-
Total direct programs				(19,590)	65,950	61,329	14,969	-
Total U.S. Department of the Interior				(19,590)	65,950	61,329	14,969	-
<b>U.S. Department of Agriculture:</b>								
Direct Programs:								
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	852,000	-	-	305,773	-	(305,773)
Water and Waste Disposal Systems For Rural Communities	10.760	N/A	288,000	-	209,526	280,500	-	(70,974)
Total direct program				-	209,526	586,273	-	(376,747)
Passed through State Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	VFA-14-090	3,000	-	-	-	-	-
Total pass-through program				-	-	-	-	-
Total U.S. Department of Agriculture				-	209,526	586,273	-	(376,747)
Total Federal Awards				<u>\$ (232,294)</u>	<u>\$ 967,200</u>	<u>\$ 1,350,147</u>	<u>\$ 39,753</u>	<u>\$ (575,488)</u>

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is a summary of cash receipts and federal expenditures related to the County's federal award programs. This schedule is presented in accordance with grant terms and conditions, which are not on the accrual basis of accounting as contemplated by generally accepted accounting principles.

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to Valley and Powder River Counties, as subrecipient organizations of the County. \$13,000 and \$2,000, respectively, in expenditures (CFDA No. 93.217) incurred by Valley and Powder River Counties were reimbursed by the County and included on the schedule as part of non-major program pass-through awards for the year ended June 30, 2014.

Certain federal funds are provided to the Southeastern Montana Health Coalition, a subrecipient organization of the County. \$49,755 in expenditures (CFDA No. 93.505) incurred by the Southeastern Montana Health Coalition were reimbursed by the County and included on the schedule as part of non-major program pass-through awards for the year ended June 30, 2014.

NOTE C - LOAN OUTSTANDING

The County had an outstanding loan balance of \$280,500 under CFDA No. 10.760 - Water and Waste Disposal Systems for Rural Communities. This loan program is also included on the schedule as major program direct awards for the year ended June 30, 2014.

CUSTER COUNTY  
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL  
AWARD FINDINGS AND QUESTIONED COSTS

2013-14. All Major Programs

Criteria: We engaged our auditors to assist in the preparation of the government's financial statements and schedule of expenditures of federal awards (SEFA). The government ensures the quality of its financial statements and SEFA by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

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

Cause: We are a small organization with limited resources.

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

Recommendation: The auditors recommended that we continue to read our draft financial statements and SEFA and ensure the quality of the document and the preparer.

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.

2013-15. All Major Programs

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

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

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

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

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

Current Status: This finding is repeated in the Schedule of Findings and Questioned Costs.

U.S. DEPARTMENT OF HOMELAND SECURITY:

2013-16. HOMELAND SECURITY GRANT PROGRAM, CFDA No. 97.067, GRANT No. EMW-2011-SS-00052

Criteria: The Buy American Act (the Act) requires that all iron, steel, and manufactured goods used in any project funded wholly or partially by federal funding involving a governmental entity, be produced in the United States. The Act requires that "substantially all" of the acquisition be attributable to American-made components. Regulations have interpreted this requirement to mean that at least 50% of the cost must be attributable to American content. Grant terms and conditions require the county to invoke the Buy American Act when using federal funding.

Condition: The County lacked adequate procedures and controls to ensure that it purchased products that were manufactured in the United States in accordance with the Buy American Act. This was evidenced by the county failing to obtain documentation to support whether the materials and manufactured goods purchased under the program were manufactured in the United States in compliance with the Act.

Questioned Costs: None.

Cause: County personnel were unaware of the Buy American requirements.

Effect: Non-compliance with program terms and conditions.

CUSTER COUNTY  
SUMMARY SCHEDULE OF PRIOR YEAR FEDERAL  
AWARD FINDINGS AND QUESTIONED COSTS

Recommendation: The County should develop procedures and controls to ensure that it purchases products that are manufactured in the United States in accordance with the Buy American Act.

Current Status: Implemented

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

2013-17. AFFORDABLE CARE ACT (ACA) MATERNAL, INFANT AND EARLY CHILDHOOD HOME VISITING PROGRAM, CFDA No. 93.505, GRANT No.13-07-5-31-24-0

Criteria: Grant terms and conditions require reports submitted to the federal awarding agency include all activity of the reporting period, be supported by underlying accounting records and be filed within the timelines imposed by the granting agency.

Condition: The reports filed for fiscal year 2013 did not agree to the general ledger.

Cause: The reports were filed using the accounting records of the county's grant subrecipient agency, not the county's general ledger.

Effect: Non-compliance with grant terms and conditions.

Questioned Cost: None

Recommendation: Custer County Health should file grant reports from the amounts recorded in the county's general ledger.

Current Status: No longer applies.

**OLNESS & ASSOCIATES, P. C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B  
BILLINGS, MONTANA 59102  
(406) 252-6230  
FAX (406) 245-6922

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

To the Board of County Commissioners  
Custer County  
Miles City, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated November 25, 2014. The report included an explanatory paragraph to describe a change in accounting principle. Also, the report on governmental activities and the aggregate remaining fund information was qualified because we did not observe year-end inventory counts and because the government's accounting records related to inventory do not permit retroactive tests of inventory quantities.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2014-001 through 2014-009)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Finding 2014-010)

Compliance and Other Matters

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

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

The Government's Response to Findings

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

Purpose of this Report

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

*O'neal & Associates, PC*

Billings, Montana  
November 25, 2014

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B  
BILLINGS, MONTANA 59102  
(406) 252-6230  
FAX (406) 245-6922

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

To the Board of County Commissioners  
Custer County  
Miles City, Montana

### Report on Compliance for Each Major Federal Program

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

### Opinion on Each Major Federal Program

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

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-011 and 2014-012 to be material weaknesses.

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

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.

*O'Leary & Associates, PC*

Billings, Montana  
November 25, 2014

CUSTER COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

*FINANCIAL STATEMENTS:*

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified?   √   yes        no
- Significant deficiency(ies) identified?   √   yes        none reported

Noncompliance material to the financial statements noted?        yes   √   no

*FEDERAL AWARDS:*

Internal control over major programs:

- Material weaknesses identified?   √   yes        no
- Significant deficiency(ies) identified?        yes   √   none reported

Type of auditor's report issued on compliance for major programs: unqualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   √   yes        no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
97.067	Homeland Security Grant Program
10.760	Water and Waste Disposal systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee?        yes   √   no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

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

2014-002. SEGREGATION OF DUTIES

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

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

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

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

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

2014-003. TREASURER'S OFFICE

Criteria: The Treasurer's office has several duties, including, but not limited to; receipting, disbursing, reconciling and investing cash, billing, collecting and accounting for property taxes and reporting.

Condition: During our audit, we noted the following:

- Cash and investments were not reconciled in a timely manner. November 2013 through March 2014 were not submitted to the commissioners for approval until May 2014.
- Unknown differences existed on the checking account reconciliations.
- Receipts and deposits to the bank were not reconciled at the end of each month.
- Items were carried on the checking account reconciliation that were deposited in the account, but not receipted.
- Interest earnings were not receipted in the proper period.
- A negative cash balance existed in the interest clearing fund at the end of the year.
- Excess interest earnings were receipted in three of the five brokerage accounts.
- The refund revolving fund (7920) was not reconciled at year-end.
- The protested tax fund, the protested taxpayer list and protested taxes receivable were not reconciled at year-end.
- Interest earnings were not allocated to the protested tax fund during the year.
- Examples were found where month end reports were not provided in a timely manner to the state of Montana, school districts located within the county and other government agencies the treasurer's office is required to report to.

Cause: Unknown.

Effect: While none of the items above had a significant impact on the county's 2014 financial statements, the potential exists for significant errors to exist and not be discovered in a timely manner, or at all.

Recommendation: The Treasurer should review and/or add procedures to address the deficiencies discussed above.

CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

2014-004. LANDFILL CHARGE SLIPS

Criteria: To ensure the completeness of solid waste billing, the numerical sequence of the prenumbered charge slips should be accounted for by the solid waste secretary.

Condition: The numerical sequence of the prenumbered charge slips is not accounted for by the solid waste secretary.

Cause: The prenumbered charge slips are used for solid waste charges and cash collections at the landfill. Additionally, the charge slips for cash collections are not forwarded to the solid waste secretary.

Effect: By not accounting for the numerical sequence of the charge slips, all customers may not be billed.

Recommendation: Two separate prenumbered charge slips books should be used, one for charges and one for cash sales. Additionally, the charge slips for cash collections should be forwarded to the solid waste secretary.

2014-005. LANDFILL CASH COLLECTIONS

Criteria: Cash collections made at the landfill by the landfill contractor, Dispose All, LLC, are not deposited intact and on a daily basis.

Condition: The landfill contractor removes the cash on hand at the landfill and remits a check to the County.

Cause: In response to this continued finding, Dispose All, LLC, has stated that it is impractical for the funds to be turned into the County Treasurer on a daily basis, as the landfill hours are longer than those of the County Treasurer. Additionally, they stated daily deposits would require extra time and expense on Dispose All, LLC's part.

Effect: Holding receipts exposes the government to loss.

Recommendation: To simplify the accounting for landfill cash collections, the County should negotiate an annual flat fee with Dispose All, LLC. By establishing an annual flat fee, risk of loss would be minimized.

2014-006. TAXES RECEIVABLE

Criteria: A reconciliation of taxes receivable as recorded in the general ledger to the treasurer's unpaid taxes receivable, by fund, by year, should be prepared to verify that the recording of transactions is accurate and proper and that any adjustments to or write-off of taxes receivable have been approved.

Condition: The fiscal officer did not reconcile taxes receivable as recorded in the general ledger to the treasurer's unpaid taxes receivable, by fund, by year.

Cause: Unknown.

Effect: Errors may accumulate and not be identified and corrected.

Recommendation: At the end of December and June of each year, the fiscal officer should prepare a reconciliation of taxes receivable as recorded in the general ledger to the treasurer's unpaid taxes receivable, by fund, by year. The reconciliation should be prepared to verify that the recording of transactions is accurate and proper and that any adjustments to or write-off of taxes receivable have been approved.

2014-007. TAX ABATEMENTS/CORRECTIONS

Criteria: Reconciling tax abatements/corrections initiated through the local Department of Revenue office ensures all changes are valid and approved by the local Department of Revenue office and County Commissioners.

Condition: Tax abatements/corrections initiated through the local Department of Revenue office were not reconciled to the general ledger by the Clerk and Recorder's office.

Cause: Unknown.

Effect: Exposes the government to risk of loss or theft.

CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

Recommendation: The Clerk and Recorder's office should reconcile the tax abatements/corrections forms to the general ledger on a monthly basis. The reconciliations should be retained for future reference.

2014-008. COUNTY FAIR

Criteria: Strong internal control procedures suggest all disbursements be supported by adequate documentation prior to being approved for payment.

Condition: Fair claims were paid for without complete and adequate documentation (contracts, invoices and receipts) to support each disbursement. Further, the fair secretary does not provide a formal accounting of the use of startup funds at the conclusion of the fair.

Cause: Unknown.

Effect: The risk of errors, irregularities or inappropriate charges occurring and not being detected is increased if supporting documentation is not attached to all disbursements.

Recommendation: The fair board should be required to attach complete and adequate documentation to claims when they are presented for payment. Additionally, we recommend the fair secretary provide a formal accounting of the startup funds to the County Commissioners at the conclusion of the fair.

---

Criteria: Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit.

Condition: Formal ticket reconciliations were not completed for gate admissions.

Cause: Unknown.

Effect: Not preparing formal ticket reconciliations for all gate admissions exposes the government to risk of loss or theft.

Recommendation: Formal ticket reconciliations should be completed for all events.

2014-009. DISTRICT COURT TRUST

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

Condition: The trust and fee account reconciliations contained errors, adjustments, unknown items and incorrect information. Further, documentation to support the reconciled balances (ie: bonds, civil, criminal, restitution, invested funds, etc.) did not agree to the reconciled balances.

Cause: Unknown.

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

Recommendation: The Clerk of District Court should contact the Montana Supreme Court for assistance in clearing out all differences and errors. Once completed, the court activity maintained in the Full Court system should be balanced to the county treasurer's statement on a monthly basis.

2014-010. CAPITAL ASSETS

Criteria: Policy requires each department to submit an annual inventory report to the Clerk and Recorder's office by July 1 of each year. Additionally, transfers or disposals of capital assets are to be reported to the Clerk and Recorder's office.

Condition: County policy is not being followed by department heads.

Cause: Unknown.

CUSTER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014

Effect: By not following policy, internal control over capital assets is weakened.

Recommendation: Department heads should follow policy.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-011. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2014-001 applies to these federal award programs.

2014-012. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2014-002 applies to these federal award programs.

CUSTER COUNTY  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINANCIAL STATEMENT FINDINGS	STATUS
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	IMPLEMENTED
2013-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-4. TREASURER'S OFFICE	NOT IMPPLEMENTED
2013-5. LANDFILL CHARGE SLIPS	NOT IMPLEMENTED
2013-6. LANDFILL CASH COLLECTIONS	NOT IMPLEMENTED
2013-7. SHERIFF CIVIL ACCOUNT	IMPLEMENTED
2013-8. COUNTY FAIR	NOT IMPLEMENTED
2013-9. DISTRICT COURT TRUST	NOT IMPLEMENTED
2013-10. TAX ABATEMENTS/CORRECTIONS	NOT IMPLEMENTED
2013-11. CAPITAL ASSETS	NOT IMPLEMENTED
2013-12. HOMELAND SECURITY GRANT PROGRAM, CFDA No. 97.067, GRANT No. EMW-2011-SS-00052	IMPLEMENTED
2013-13. AFFORDABLE CARE ACT (ACA) MATERNAL, INFANT AND EARLY CHILDHOOD HOME VISITING PROGRAM, CFDA No. 93.505, GRANT No. 13-07-5-31-24-0	NO LONGER APPLIES