

VALLEY COUNTY
GLASGOW, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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VALLEY COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

David Pippin	Board Chairperson
Bruce Peterson	Commissioner
David Reinhardt	Commissioner

OFFICIALS

Lynne Nyquist	Clerk and Recorder/Superintendent
Jennifer Reinhardt	Treasurer
Glen Meier	Sheriff/Coroner
Nick Murnion	County Attorney
Shelley Bryan	Clerk of District Court
James Wixson	Justice of the Peace
Daniel Taylor	Public Administrator

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Valley County
Glasgow, 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 Valley 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

Materials and supplies inventory was not recorded in the governmental activities, general fund, road fund and aggregate remaining fund information. Accounting principles generally accepted in the United States of America require that materials and supplies inventory be recorded, which would increase the assets and net position/fund balances in the governmental activities, general fund, road fund and aggregate remaining fund information. The amount by which this departure would affect the assets and net position/fund balances of the governmental activities, general fund, road fund and aggregate remaining fund information is not reasonably determinable.

Management has not recorded the other post employment benefit (OPEB) liability and related expense. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase liabilities, decrease the net position and change expenses for the governmental activities, business-type activities and enterprise fund. The amount by which this departure would affect the liabilities, net position and expenses is not reasonably determinable.

Because of inadequacies of the government's accounting records, we were unable to form an opinion regarding the amounts at which capital assets, accumulated depreciation and related depreciation expense were recorded in the governmental activities, business-type activities and the enterprise fund.

INDEPENDENT AUDITOR'S REPORT (Continued)

Qualified Opinions

In our opinion, except for the effects of the matters described in the first two paragraphs under the heading "Basis for Qualified Opinions" and except for the possible effects of the matter discussed in the last paragraph 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, business-type activities, general fund, road fund, enterprise fund and the aggregate remaining fund information of the government, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PILT and senior transportation funds (major funds) of the government as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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 24, 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.

O'Leary & Associates, PC

Billings, Montana
November 24, 2014

VALLEY COUNTY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 4,051,070	\$ 289,613	\$ 4,340,683
Investments	696,810	49,815	746,625
Receivables:			
Taxes and assessments	151,293	70,610	221,903
Governments	1,239,025	13,526	1,252,551
Solid waste	-	31,733	31,733
Other	12,136	-	12,136
Restricted assets:			
Cash and equivalents	-	4,558	4,558
Investments	-	295,512	295,512
Capital assets:			
Land	376,149	-	376,149
Capital assets, net of accumulated depreciation	116,730,119	1,081,613	117,811,732
Total assets	123,256,602	1,836,980	125,093,582
LIABILITIES			
Accounts payable-vendors	276,957	2,574	279,531
Unearned revenues	47,722	-	47,722
Long-term liabilities:			
Due within one year:			
Notes and capital leases payable	117,408	33,772	151,180
Compensated absences	36,828	1,598	38,426
Due in more than one year:			
Notes and capital leases payable	1,423,017	197,976	1,620,993
Compensated absences	331,451	14,381	345,832
Landfill closure/postclosure costs payable	-	318,292	318,292
Total liabilities	2,233,383	568,593	2,801,976
NET POSITION			
Net investment in capital assets	115,565,843	988,313	116,554,156
Restricted for:			
General government	61,801	-	61,801
Public safety	278,419	-	278,419
Public works	759,084	-	759,084
Public health	182,172	-	182,172
Social and economic services	92,381	-	92,381
Culture and recreation	68,836	-	68,836
Housing and community development	49,426	-	49,426
Capital projects	283,132	-	283,132
Unrestricted	3,682,125	280,074	3,962,199
Total net position	\$ 121,023,219	\$ 1,268,387	\$ 122,291,606

See notes to basic financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,900,127	\$ 220,328	\$ 26,887	\$ -	\$ (1,652,912)	\$ -	\$ (1,652,912)
Public safety	1,967,180	574,412	568,184	-	(824,584)	-	(824,584)
Public works	2,894,047	348,921	128,224	727,819	(1,689,083)	-	(1,689,083)
Public health	628,543	236,184	73,323	-	(319,036)	-	(319,036)
Social and economic services	1,076,947	149,772	546,953	80,871	(299,351)	-	(299,351)
Culture and recreation	369,380	67,577	21,272	-	(280,531)	-	(280,531)
Housing and community development	4,629	-	-	-	(4,629)	-	(4,629)
Interest on long-term debt	12,261	-	-	-	(12,261)	-	(12,261)
Unallocated depreciation	3,971,969	-	-	-	(3,971,969)	-	(3,971,969)
Total governmental activities	<u>12,825,083</u>	<u>1,597,194</u>	<u>1,364,843</u>	<u>808,690</u>	<u>(9,054,356)</u>	<u>-</u>	<u>(9,054,356)</u>
Business-type activities:							
Refuse Disposal District #1	718,079	787,740	-	-	-	69,661	69,661
Total business-type activities	<u>718,079</u>	<u>787,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,661</u>	<u>69,661</u>
Total	<u>\$ 13,543,162</u>	<u>\$ 2,384,934</u>	<u>\$ 1,364,843</u>	<u>\$ 808,690</u>	<u>(9,054,356)</u>	<u>69,661</u>	<u>(8,984,695)</u>
General revenues:							
Property taxes					4,288,333	-	4,288,333
Licenses and permits					700	-	700
Unrestricted intergovernmental					1,875,651	-	1,875,651
Unrestricted investment earnings					42,079	4,914	46,993
Miscellaneous					72,848	321	73,169
Gain on disposal of capital assets					499,498	39,335	538,833
Total general revenues					<u>6,779,109</u>	<u>44,570</u>	<u>6,823,679</u>
Change in net position					<u>(2,275,247)</u>	<u>114,231</u>	<u>(2,161,016)</u>
Net position - beginning					<u>123,298,466</u>	<u>1,154,156</u>	<u>124,452,622</u>
Net position - ending					<u>\$ 121,023,219</u>	<u>\$ 1,268,387</u>	<u>\$ 122,291,606</u>

VALLEY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Road	PILT	Senior Transportation	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,168,335	\$ -	\$ 1,296,265	\$ -	\$ 1,586,470	\$ 4,051,070
Investments	200,961	-	208,435	-	287,414	696,810
Receivables:						
Taxes and assessments	63,698	27,316	-	-	60,279	151,293
Governments	149,729	712,163	90,190	106,578	180,365	1,239,025
Other	-	-	-	-	12,136	12,136
Due from other funds	-	-	-	-	174,383	174,383
Total assets	\$ 1,582,723	\$ 739,479	\$ 1,594,890	\$ 106,578	\$ 2,301,047	\$ 6,324,717
LIABILITIES						
Accounts payable-vendors	\$ -	\$ 269,246	\$ -	\$ -	\$ 7,711	\$ 276,957
Due to other funds	-	70,952	-	67,994	35,437	174,383
Unearned revenues	-	26,107	-	-	21,615	47,722
Total liabilities	-	366,305	-	67,994	64,763	499,062
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	63,698	27,316	-	-	67,834	158,848
Total deferred inflows of resources	63,698	27,316	-	-	67,834	158,848
FUND BALANCES (DEFICITS)						
Restricted for:						
General government	-	-	-	-	42,334	42,334
Public safety	-	-	-	-	273,058	273,058
Public works	-	345,858	-	-	368,581	714,439
Public health	-	-	-	-	173,032	173,032
Social and economic services	-	-	-	38,584	50,688	89,272
Culture and recreation	-	-	-	-	60,888	60,888
Housing and community development	-	-	-	-	43,946	43,946
Capital projects	-	-	-	-	283,132	283,132
Committed for:						
General government	-	-	674,918	-	792,265	1,467,183
Public safety	-	-	62,262	-	52,627	114,889
Public works	-	-	683,131	-	-	683,131
Public health	-	-	131,992	-	-	131,992
Social and economic services	-	-	10,169	-	-	10,169
Culture and recreation	-	-	1,124	-	28,388	29,512
Housing and community development	-	-	31,294	-	-	31,294
Unassigned	1,519,025	-	-	-	(489)	1,518,536
Total fund balances (deficits)	1,519,025	345,858	1,594,890	38,584	2,168,450	5,666,807
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 1,582,723	\$ 739,479	\$ 1,594,890	\$ 106,578	\$ 2,301,047	\$ 6,324,717

See notes to basic financial statements.

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

Total fund balances, governmental funds	\$ 5,666,807
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 funds.	117,106,268
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenues in the funds.	158,848
Some liabilities, including notes payable, capital leases and compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(1,908,704)</u>
Net position of governmental activities	<u>\$ 121,023,219</u>

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

	General	Road	PILT	Senior Transportation	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,677,774	\$ 826,899	\$ -	\$ -	\$ 1,903,280	\$ 4,407,953
Fines and forfeitures	36,831	-	-	-	21,654	58,485
Licenses and permits	700	-	-	-	-	700
Intergovernmental	486,756	959,675	1,094,603	349,440	823,098	3,713,572
Charges for services	833,685	-	-	149,772	440,859	1,424,316
Investment earnings	33,653	-	-	-	9,753	43,406
Miscellaneous	142,641	3,519	-	2,233	182,858	331,251
Total revenues	<u>3,212,040</u>	<u>1,790,093</u>	<u>1,094,603</u>	<u>501,445</u>	<u>3,381,502</u>	<u>9,979,683</u>
EXPENDITURES						
Current:						
General government	1,614,975	-	703	-	278,182	1,893,860
Public safety	1,619,306	-	9,196	-	331,412	1,959,914
Public works	72,053	1,455,910	100,897	-	1,270,579	2,899,439
Public health	400,609	-	19,495	-	217,281	637,385
Social and economic services	21,040	-	1,502	617,935	425,734	1,066,211
Culture and recreation	46,123	-	166	-	323,144	369,433
Housing and community development	-	-	4,622	-	7	4,629
Debt service:						
Principal	-	1,031,767	-	-	18,930	1,050,697
Interest and other charges	-	9,490	-	-	2,771	12,261
Capital outlay	36,216	2,171,560	98,981	-	317,646	2,624,403
Total expenditures	<u>3,810,322</u>	<u>4,668,727</u>	<u>235,562</u>	<u>617,935</u>	<u>3,185,686</u>	<u>12,518,232</u>
Excess (deficiency) of revenues over expenditures	<u>(598,282)</u>	<u>(2,878,634)</u>	<u>859,041</u>	<u>(116,490)</u>	<u>195,816</u>	<u>(2,538,549)</u>
OTHER FINANCING SOURCES (USES)						
Capital leases	-	1,399,155	-	-	-	1,399,155
Insurance	8,076	-	-	-	-	8,076
Sale of capital assets	1,592	910,271	-	-	-	911,863
Transfers in	944,222	506,228	-	131,291	169,479	1,751,220
Transfers out	(91,500)	-	(970,910)	-	(688,810)	(1,751,220)
Total other financing sources (uses)	<u>862,390</u>	<u>2,815,654</u>	<u>(970,910)</u>	<u>131,291</u>	<u>(519,331)</u>	<u>2,319,094</u>
Net change in fund balances	<u>264,108</u>	<u>(62,980)</u>	<u>(111,869)</u>	<u>14,801</u>	<u>(323,515)</u>	<u>(219,455)</u>
Fund balances - beginning	<u>1,254,917</u>	<u>408,838</u>	<u>1,706,759</u>	<u>23,783</u>	<u>2,491,965</u>	<u>5,886,262</u>
Fund balances - ending	<u>\$ 1,519,025</u>	<u>\$ 345,858</u>	<u>\$ 1,594,890</u>	<u>\$ 38,584</u>	<u>\$ 2,168,450</u>	<u>\$ 5,666,807</u>

VALLEY 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	\$ (219,455)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which depreciation (\$3,971,969) exceeded capital outlay (\$2,624,403) in the current period.	(1,347,566)
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to decrease net position.	(331,494)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(10,216)
Unavailable revenues	(10,216)
<p>Long-term debt issued provides current financial resources to governmental funds. In contrast, 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 debt issued exceeded debt repayments.</p>	
	(348,458)
<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 the governmental funds:</p>	
Compensated absences	<u>(18,058)</u>
Change in net position of governmental activities	<u>\$ (2,275,247)</u>

VALLEY COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	Enterprise Fund
	Refuse Disposal District #1
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 289,613
Investments	49,815
Receivables:	
Taxes and assessments	70,610
Solid waste	31,733
Governments	13,526
Total current assets	455,297
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	4,558
Investments	295,512
Total restricted assets	300,070
Capital assets:	
Buildings and improvements	619,996
Machinery and equipment	1,591,495
Less: accumulated depreciation	(1,129,878)
Total capital assets, net	1,081,613
Total noncurrent assets	1,381,683
Total assets	1,836,980
LIABILITIES	
Current liabilities:	
Accounts payable	2,574
Compensated absences	1,598
Notes payable	33,772
Total current liabilities	37,944
Non-current liabilities:	
Compensated absences	14,381
Landfill closure/postclosure costs payable	318,292
Notes payable	197,976
Total non-current liabilities	530,649
Total liabilities	568,593
NET POSITION	
Net investment in capital assets	988,313
Unrestricted	280,074
Total net position	\$ 1,268,387

See notes to basic financial statements.

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

	Enterprise Fund <u>Refuse Disposal District #1</u>
REVENUES	
Charges for services	\$ 197,152
Assessments	<u>590,588</u>
Total operating revenues	<u>787,740</u>
OPERATING EXPENSES	
Personal services	198,400
Supplies	93,776
Purchased services	315,225
Fixed charges	2,001
Closure/postclosure costs	22,522
Depreciation	<u>83,378</u>
Total operating expenses	<u>715,302</u>
Operating income	<u>72,438</u>
NON-OPERATING REVENUES (EXPENSES)	
Gain on disposal of capital assets	39,335
Interest and investment revenue	4,914
Miscellaneous revenue	321
Interest expense	<u>(2,777)</u>
Total non-operating revenues (expenses)	<u>41,793</u>
Change in net position	114,231
Net position - beginning	<u>1,154,156</u>
Net position - ending	<u>\$ 1,268,387</u>

VALLEY COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	Enterprise Fund
	Refuse Disposal District #1
CASH FLOWS FROM OPERATIONS:	
Cash received from customers	\$ 768,541
Cash paid to employees	(198,681)
Cash paid to suppliers for goods and services	(411,002)
Net cash provided by operating activities	158,858
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous	321
Net cash provided by noncapital financing activities	321
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Purchase of capital assets	(93,310)
Cash received from long term debt issued	93,300
Principal payments on debt	(37,240)
Interest paid	(2,777)
Net cash used by capital financing activities	(40,027)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net change in investments	(12,110)
Interest received	4,914
Net cash used by investing activities	(7,196)
Change in cash and cash equivalents	111,956
Cash and cash equivalents - ending (includes restricted cash and cash equivalents of \$7,902)	182,215
Cash and cash equivalents - ending (includes restricted cash and cash equivalents of \$4,558)	\$ 294,171
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 72,438
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	83,378
Closoure/ postclosure costs	22,522
Decrease in due from governments	4,241
Increase in accounts receivable	(31,733)
Decrease in taxes/assessments receivable	8,293
Decrease in compensated absences	(281)
Net cash provided by operating activities	\$ 158,858

See notes to basic financial statements.

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

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 20,664,730	\$ 949,311
Investments	2,970,925	-
Taxes and assessments receivable	-	960,474
Due from other governments	-	1,128
	<u>23,635,655</u>	<u>\$ 1,910,913</u>
Total assets		
LIABILITIES		
Accounts payable		\$ 4,491
Due to other governments:		
Special districts	-	1,117,576
State	-	210,074
Schools	-	282,488
Cities/towns	-	296,284
	<u>-</u>	<u>\$ 1,910,913</u>
Total liabilities		
NET POSITION		
Held in trust	<u>\$ 23,635,655</u>	

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

	External Investment Trust Fund
ADDITIONS	
Contribution to investment trust	\$ 22,810,297
Total contributions	22,810,297
Investment earnings:	
Interest	27,576
Total net investment earnings	27,576
Total additions	22,837,873
DEDUCTIONS	
Withdrawals	16,622,266
Total deductions	16,622,266
Change in net position	6,215,607
Net position - beginning	17,420,048
Net position - ending	\$ 23,635,655

VALLEY 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'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. 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 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 are charges to customers for sales and services. Operating expenses for

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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 road fund accounts for resources accumulated from property taxes and state entitlement revenues and payments made for the maintenance, repair and construction of county-owned roads.

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 senior transportation fund accounts for federal grants and donations that are used to operate a senior transportation program.

The government reports the following major proprietary fund:

The refuse disposal district fund accounts for the activities of the government's sanitation and landfill services.

Additionally, the government reports the following fund types:

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. 79% 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.

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.

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The government does not charge an administrative fee.

Receivables and Payables

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

No allowance is made for uncollectible receivables as they are not considered significant.

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.

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

Inventories are recorded as expenses 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. The amount is 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:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-100
Building and improvements	25-100
Machinery and equipment	4-20

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.

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

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 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.

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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 and/or commissioners to assign fund balance. There was no assigned fund balance.

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 DNRC FIRE grant fund had a deficit fund balance of \$489 as of June 30, 2014. The deficit occurred because current year expenditures exceed revenues. The deficit is expected to be eliminated by transferring money from the general fund.

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	\$ 4,747,880
Business-type activities	639,498
Fiduciary funds	<u>24,584,966</u>
	<u>\$ 29,972,344</u>

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	\$ 1,150	\$ -	\$ 1,150
Cash in banks:			
Demand deposits	1,064,752	-	1,064,752
Savings deposits	13,771,564	-	13,771,564
Time deposits	-	1,367,550	1,367,550
Brokers:			
Money markets	4,558	-	4,558
U.S. Government securities	-	2,645,512	2,645,512
Short-term Investment Program (STIP)	11,106,253	-	11,106,253
Repurchase agreements	<u>11,005</u>	<u>-</u>	<u>11,005</u>
	<u>\$ 25,959,282</u>	<u>\$ 4,013,062</u>	<u>\$ 29,972,344</u>

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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, \$15,828,213 of the government's bank balance of \$16,619,988 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 4,172,653
Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>11,655,560</u>
	<u>\$ 15,828,213</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
U.S Government securities	.65 to 2.75%	Various	\$ 2,646,000	\$ 2,645,512	\$ 2,634,709	65.92%
Time deposits	.30 to .55%	Various	1,367,550	<u>1,367,550</u>	<u>1,367,550</u>	34.08%
				<u>\$ 4,013,062</u>	<u>\$ 4,002,259</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.

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 11,005	\$ 11,005	\$ 11,005
Brokers:					
Money markets	4,558	-	-	4,558	4,558
U.S. Government securities	<u>795,512</u>	-	<u>1,850,000</u>	<u>2,645,512</u>	<u>2,634,709</u>
	<u>\$ 800,070</u>	\$ -	<u>\$ 1,861,005</u>	2,661,075	2,650,272
Uncategorized:					
STIP				<u>11,106,253</u>	<u>11,106,253</u>
				<u>\$ 13,767,328</u>	<u>\$ 13,756,525</u>

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Internal	External	Total
Net position - beginning of year	\$ 6,183,156	\$ 17,420,048	\$ 23,603,204
Contributions from participants	6,741,311	22,810,297	29,551,608
Investment earnings	31,092	27,576	58,668
Distributions to participants	(6,618,870)	(16,622,266)	(23,241,136)
Net position - end of year	<u>\$ 6,336,689</u>	<u>\$ 23,635,655</u>	<u>\$ 29,972,344</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	\$ 376,149	\$ -	\$ -	\$ 376,149
Construction-in-progress	507,863	139,475	(647,338)	-
Total capital assets, not being depreciated	<u>884,012</u>	<u>139,475</u>	<u>(647,338)</u>	<u>376,149</u>
Capital assets, being depreciated				
Buildings/improvements	6,863,464	22,000	-	6,885,464
Improvements other than buildings	10,072,625	35,099	-	10,107,724
Machinery and equipment	7,987,127	1,891,168	(1,396,400)	8,481,895
Infrastructure	215,902,087	1,264,870	-	217,166,957
Total capital assets, being depreciated	<u>240,825,303</u>	<u>3,213,137</u>	<u>(1,396,400)</u>	<u>242,642,040</u>
Less accumulated depreciation for:				
Buildings/improvements	(1,700,740)	(127,865)	-	(1,828,605)
Improvements other than buildings	(1,648,389)	(486,826)	-	(2,135,215)
Machinery and equipment	(5,587,706)	(1,149,819)	984,035	(5,753,490)
Infrastructure	(113,987,152)	(2,207,459)	-	(116,194,611)
Total accumulated depreciation	<u>(122,923,987)</u>	<u>(3,971,969)</u>	<u>984,035</u>	<u>(125,911,921)</u>
Total capital assets, being depreciated, net	<u>117,901,316</u>	<u>(758,832)</u>	<u>(412,365)</u>	<u>116,730,119</u>
Governmental activities capital assets, net	<u>\$ 118,785,328</u>	<u>\$ (619,357)</u>	<u>\$ (1,059,703)</u>	<u>\$ 117,106,268</u>
	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Business-type activities:				
Capital assets, being depreciated				
Buildings and systems	\$ 405,348	\$ -	\$ -	\$ 405,348
Improvements other than buildings	214,648	-	-	214,648
Machinery and equipment	1,535,248	248,247	(192,000)	1,591,495
Total capital assets, being depreciated	<u>2,155,244</u>	<u>248,247</u>	<u>(192,000)</u>	<u>2,211,491</u>
Less accumulated depreciation for:				
Buildings and systems	(114,915)	(9,704)	-	(124,619)
Improvements other than buildings	(220,646)	-	5,998	(214,648)
Machinery and equipment	(787,337)	(73,674)	70,400	(790,611)
Total accumulated depreciation	<u>(1,122,898)</u>	<u>(83,378)</u>	<u>76,398</u>	<u>(1,129,878)</u>
Total capital assets, being depreciated, net	<u>1,032,346</u>	<u>164,869</u>	<u>(115,602)</u>	<u>1,081,613</u>
Business-type activities capital assets, net	<u>\$ 1,032,346</u>	<u>\$ 164,869</u>	<u>\$ (115,602)</u>	<u>\$ 1,081,613</u>

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

For governmental activities, depreciation expense of \$3,971,969 was not functionally allocated. Depreciation expense for business-type activities was charged as follows:

Business-type activities:	
Refuse District	<u>\$ 83,378</u>

Interfund Receivables, Payables and Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer out
Governmental activities:		
General	\$ 944,222	\$ (91,500)
Road	506,228	-
PILT	-	(970,910)
Senior transportation	131,291	-
Nonmajor governmental funds	169,479	(688,810)
Total governmental activities	\$ 1,751,220	\$ (1,751,220)

Transfers are used to fund operations of various governmental activities and grant matching. Resources are also transferred to fund future capital purchases or improvements.

Interfund balances as of June 30, 2014, consisted of the following:

	Due from funds	Due to funds
Governmental activities:		
Road	\$ -	\$ (70,952)
Senior transportation	-	(67,994)
Nonmajor governmental funds:		
Alcohol	-	(3,832)
MCH	-	(1,522)
council on Aging	-	(7,356)
Option tax	174,383	-
Stonegarden	-	(22,727)
Total governmental activities	\$ 174,383	\$ (174,383)

The balances due to the option tax fund resulted from loans made to cover cash overdrafts. The balances are scheduled to be repaid in the subsequent year.

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	\$ 1,653,000
Less: accumulated depreciation	(330,600)
	\$ 1,322,400

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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	\$ 131,000
	2016	131,000
	2017	131,000
	2018	131,000
	2019	1,014,338
Total minimum lease payments		1,538,338
Less: amount representing interest		(139,183)
Present value of minimum lease payments		\$ 1,399,155

Long-Term Debt

Notes payable are as follows:

	Original Amount	Term	Interest Rate	Balance June 30, 2014
Airport-2006 (2)	\$ 5,500	10 yrs	2.50%	\$ 550
Airport-2013 (2)	110,000	10 yrs	1.63%	88,000
Airport-2013 (2)	58,000	10 yrs	1.63%	46,400
Airport-2008 (2)	15,800	10 yrs	3.63%	6,320
Refuse road-2012 (1), (3)	63,038	10 yrs	1.00%	138,448
Loader-2014 (3)	93,300	5 yrs	4.40%	93,300
				\$ 373,018

(1) Through Montana Board of Investments. Interest adjusted each February, with a 15 percent cap.

(2) Governmental activities.

(3) Business-type activities.

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

Year ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 18,930	\$ 2,427	\$ 21,357	\$ 33,772	\$ 5,313	\$ 39,085
2016	18,380	2,083	20,463	34,601	4,526	39,127
2017	18,380	1,753	20,133	35,588	3,581	39,169
2018	18,380	1,422	19,802	36,626	2,585	39,211
2019	16,800	1,092	17,892	37,697	1,557	39,254
2020-2022	50,400	1,639	52,039	53,464	939	54,403
	\$ 141,270	\$ 10,416	\$ 151,686	\$ 231,748	\$ 18,501	\$ 250,249

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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:					
Notes payable	\$ 160,200	\$ -	\$ (18,930)	\$ 141,270	\$ 18,930
Capital leases	1,031,767	1,399,155	(1,031,767)	1,399,155	98,478
Compensated absences	350,221	18,058	-	368,279	36,828
Governmental activity long-term liabilities	\$ 1,542,188	\$ 1,417,213	\$ (1,050,697)	\$ 1,908,704	\$ 154,236
Business-type activities:					
Notes payable	\$ 175,688	\$ 93,300	\$ (37,240)	\$ 231,748	\$ 33,772
Compensated absences	16,260	-	(281)	15,979	1,598
Business-type activity long-term liabilities	\$ 191,948	\$ 93,300	\$ (37,521)	\$ 247,727	\$ 35,370

For the governmental activities, compensated absences are generally liquidated by the general fund. Notes payable are liquidated by the option tax and airport funds. Capital leases are liquidated by the road fund.

Conduit Debt

To provide for the refinancing of existing debt and construction of improvements to Frances Mahon Deaconess Hospital and Prairie Ridge Village, LLP, the County issued special limited obligations, payable solely from and secured by payments to be made by the above named entities under loan agreements. 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 amount of bonds/notes outstanding 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 they stop 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 sites stop 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 \$318,292 reported as a landfill closure and postclosure care liability as of the year ended June 30, 2014, represents the cumulative amount reported to date based on the use of 13 percent of the estimated capacity of the site. The government will recognize the remaining estimated cost of closure and postclosure care of \$2,112,965 as the remaining estimated capacity of the new site is filled. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2014. The government expects to close the new site in the year 2153. 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, \$300,070 had been set aside for this purpose. The \$300,070, including interest earnings, is restricted and reported in the financial statements as "restricted 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	Retirements	Balance June 30, 2014
Landfill	\$ 295,770	\$ 22,522	\$ -	\$ 318,292

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

VALLEY COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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 a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also 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.

Interlocal Agreements

The City of Glasgow maintains the accounting records for the operation of the City-County library. The County levies or makes contributions to the City for these shared services. For the year ended June 30, 2014, the County contributed approximately \$155,000 to the City for these services.

The County and the Towns of Nashua, Fort Peck and Opheim and the City of Glasgow signed agreements whereby the County provides general law enforcement and dispatch services. During 2014, the Towns and City contributed approximately \$168,000 for these services.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$184,000, primarily for construction projects.

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:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
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.

VALLEY COUNTY
NOTES TO BASIC 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	\$ 114,267	\$ 100,890	\$ 93,829
PERS	429,988	342,666	311,317
	\$ 544,255	\$ 443,556	\$ 405,146

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

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

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Taxes/assessments	\$ 1,687,498	\$ 1,687,498	\$ 1,677,774
Fines and forfeitures	29,000	29,000	36,831
Licenses and permits	-	-	700
Intergovernmental	448,811	448,811	486,756
Charges for services	695,993	695,993	833,685
Investment earnings	36,900	36,900	33,653
Miscellaneous	153,703	153,703	142,641
Total revenues	3,051,905	3,051,905	3,212,040
EXPENDITURES			
Current:			
General government	1,690,783	1,748,766	1,614,975
Public safety	1,749,851	1,691,867	1,619,306
Public works	72,000	72,000	72,053
Public health	426,874	426,874	400,609
Social and economic services	27,100	27,100	21,040
Culture and recreation	44,360	44,360	46,123
Capital outlay	125,000	125,000	36,216
Total expenditures	4,135,968	4,135,967	3,810,322
Excess (deficiency) of revenues over expenditures	(1,084,063)	(1,084,062)	(598,282)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	1,592
Insurance	-	-	8,076
Transfers in	955,828	955,828	944,222
Transfers out	(91,500)	(91,500)	(91,500)
Total other financing sources (uses)	864,328	864,328	862,390
Net change in fund balance	\$ (219,735)	\$ (219,734)	264,108
Fund balance - beginning			1,254,917
Fund balance - ending			\$ 1,519,025

See notes to required supplementary information.

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

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Taxes/assessments	\$ 830,865	\$ 830,865	\$ 826,899
Intergovernmental	205,212	205,212	959,675
Miscellaneous	7,500	7,500	3,519
Total revenues	1,043,577	1,043,577	1,790,093
EXPENDITURES			
Current:			
Public works	2,216,770	2,216,770	1,455,910
Debt service:			
Principal	128,627	1,038,876	1,031,767
Interest and other charges	2,381	2,381	9,490
Capital outlay	-	2,271,364	2,171,560
Total expenditures	2,347,778	5,529,391	4,668,727
Excess (deficiency) of revenues over expenditures	(1,304,201)	(4,485,814)	(2,878,634)
OTHER FINANCING SOURCES			
Capital leases	-	1,399,155	1,399,155
Sale of capital assets	-	-	910,271
Transfers in	1,043,418	1,043,418	506,228
Total other financing sources	1,043,418	2,442,573	2,815,654
Net change in fund balance	\$ (260,783)	\$ (2,043,241)	(62,980)
Fund balance - beginning			408,838
Fund balance - ending			\$ 345,858

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

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Intergovernmental	\$ 997,000	\$ 997,000	\$ 1,094,603
Total revenues	997,000	997,000	1,094,603
EXPENDITURES			
Current:			
General government	70,000	70,000	703
Public safety	70,100	70,100	9,196
Public works	19,600	19,600	100,897
Public health	1,400	1,400	19,495
Social and economic services	1,500	1,500	1,502
Culture and recreation	1,400	1,400	166
Housing and community development	5,000	5,000	4,622
Capital outlay	873,000	873,000	98,981
Total expenditures	1,042,000	1,042,000	235,562
Excess (deficiency) of revenues over expenditures	(45,000)	(45,000)	859,041
OTHER FINANCING USES			
Transfers out	(1,198,500)	(1,198,500)	(970,910)
Total other financing uses	(1,198,500)	(1,198,500)	(970,910)
Net change in fund balance	<u>\$ (1,243,500)</u>	<u>\$ (1,243,500)</u>	(111,869)
Fund balance - beginning			1,706,759
Fund balance - ending			<u>\$ 1,594,890</u>

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

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Intergovernmental	\$ 349,422	\$ 349,422	\$ 349,440
Charges for services	144,214	144,214	149,772
Miscellaneous	3,500	3,500	2,233
Total revenues	<u>497,136</u>	<u>497,136</u>	<u>501,445</u>
EXPENDITURES			
Current:			
Social and economic services	604,630	617,934	617,935
Total expenditures	<u>604,630</u>	<u>617,934</u>	<u>617,935</u>
Excess (deficiency) of revenues over expenditures	<u>(107,494)</u>	<u>(120,798)</u>	<u>(116,490)</u>
OTHER FINANCING SOURCES			
Transfers in	117,987	117,987	131,291
Total other financing sources	<u>117,987</u>	<u>117,987</u>	<u>131,291</u>
Net change in fund balance	<u>\$ 10,493</u>	<u>\$ (2,811)</u>	14,801
Fund balance - beginning			<u>23,783</u>
Fund balance - ending			<u>\$ 38,584</u>

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

BUDGETARY 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.

OTHER SUPPLEMENTARY INFORMATION

VALLEY 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	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
U.S. Department of Transportation:								
Direct Programs:								
Airport Improvement Program	20.106	DOT-FA11NM-2041	\$ 4,455,543	\$ (180,996)	\$ 96,055	\$ -	\$ (4,804)	\$ (89,745)
Airport Improvement Program	20.106	DOT-FA13NM-2048	125,000	-	8,700	7,830	(870)	-
Airport Improvement Program	20.106	DOT-FA12NM-2008	942,010	-	-	-	-	-
Total direct programs				(180,996)	104,755	7,830	(5,674)	(89,745)
Passed through the Montana Department of Transportation:								
Incentive Grant Program to Prohibit Racial Profiling	20.611	N/A	9,990	(9,990)	9,990	-	-	-
Subtotal				(9,990)	9,990	-	-	-
Cash Assistance:								
Formula Grants for Other Than Urbanized Areas	20.509	107084	335,609	-	236,111	335,609	-	(99,498)
Formula Grants for Other Than Urbanized Areas	20.509	106409	309,792	(96,592)	96,592	-	-	-
Non-cash Assistance:								
Formula Grants for Other Than Urbanized Areas	20.509	107411	28,139	-	28,139	28,139	-	-
Formula Grants for Other Than Urbanized Areas	20.509	107568	47,149	-	47,149	47,149	-	-
Subtotal				(96,592)	407,991	410,897	-	(99,498)
Highway Safety Cluster:								
Passed through the Montana Sheriffs and Peace Officers Association:								
State and Community Highway Safety	20.600	2013	4,000	(2,181)	2,181	-	-	-
State and Community Highway Safety	20.600	2014	1,736	-	-	1,736	-	(1,736)
Subtotal				(2,181)	2,181	1,736	-	(1,736)
Occupant Protection	20.602	2013	2,200	(1,289)	1,289	-	-	-
Occupant Protection	20.602	2014	1,025	-	-	1,025	-	(1,025)
Subtotal				(1,289)	1,289	1,025	-	(1,025)
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2013	11,000	(6,445)	6,445	-	-	-
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2014	5,129	-	-	5,129	-	(5,129)
Subtotal				(6,445)	6,445	5,129	-	(5,129)
Highway Safety Cluster Subtotal				(9,915)	9,915	7,890	-	(7,890)
Total pass-through programs				(116,497)	427,896	418,787	-	(107,388)
Total U.S. Department of Transportation				(297,493)	532,651	426,617	(5,674)	(197,133)
U.S. Department of Justice:								
Direct Program:								
Bulletproof Vest Partnership Program	16.607	N/A	1,169	-	514	514	-	-
Bulletproof Vest Partnership Program	16.607	N/A	992	(992)	992	-	-	-
Subtotal				(992)	1,506	514	-	-
Passed through the Montana Board of Crime Control:								
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12-G01-91601	9,000	-	9,000	9,000	-	-
Subtotal				-	9,000	9,000	-	-
Total U.S. Department of Justice				(992)	10,506	9,514	-	-

VALLEY 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	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
U.S. Department of Homeland Security:								
Passed through the Montana Department of Military Affairs-								
Disaster and Emergency Services Division:								
Homeland Security Grant Program	97.067	EMW-2013-SS-0064	50,000	-	-	-	-	-
Homeland Security Grant Program	97.067	EMW-2012-SS-00143-S01	149,521	-	63,608	80,749	-	(17,141)
Homeland Security Grant Program	97.067	EMW-2013-SS-00064	92,943	-	18,309	24,409	-	(6,100)
Homeland Security Grant Program	97.067	EMW-2011-SS-00052	106,357	(16,036)	40,674	24,638	-	-
Subtotal				(16,036)	122,591	129,796	-	(23,241)
Emergency Management Performance Grants	97.042	EMW-2012-EP-00057	24,494	-	4,617	4,617	-	-
Emergency Management Performance Grants	97.042	EMW-2013-EP-00044-S01	55,988	-	6,910	8,942	-	(2,032)
Subtotal				-	11,527	13,559	-	(2,032)
Disaster Grants - Public Assistance	97.036	FEMA-4127-DR-MT	219,219	-	121,403	193,112	-	(71,709)
Disaster Grants - Public Assistance	97.036	FEMA-1896-DR-MT	2,116,202	(333,683)	186,465	286,053	-	(433,271)
Subtotal				(333,683)	307,868	479,165	-	(504,980)
Pre-Disaster Mitigation	97.047	PDMC-PL-08-MT-2013-002	92,000	-	-	-	-	-
Subtotal				-	-	-	-	-
Total U.S. Department of Homeland Security				(349,719)	441,986	622,520	-	(530,253)
U.S. Department of Health and Human Services:								
Passed through Daniels County:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	14-07-3-01-025-0	6,200	-	6,200	6,200	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-025-0	7,450	(3,250)	3,250	-	-	-
Subtotal				(3,250)	9,450	6,200	-	-
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services								
Block Grant to the States	93.994	14-07-5-01-053-0	7,608	-	6,086	5,608	(478)	-
Subtotal				-	6,086	5,608	(478)	-
Immunization Grants	93.268	14-07-4-31-149-0	4,256	-	3,192	4,256	-	(1,064)
Subtotal				-	3,192	4,256	-	(1,064)
Preventive and Public Health Fund Affordable Care Act - Immunization Program	93.539	14-07-4-31-184-0	12,600	-	3,150	1,644	(1,506)	-
Subtotal				-	3,150	1,644	(1,506)	-
Public Health Emergency Preparedness	93.069	13-07-6-11-055-0	37,996	(8,550)	8,550	-	-	-
Public Health Emergency Preparedness	93.069	14-07-6-11-055-0	32,273	-	22,447	32,273	-	(9,826)
Subtotal				(8,550)	30,997	32,273	-	(9,826)
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	2014-001-16	17,770	-	16,029	17,474	-	(1,445)
Subtotal				-	16,029	17,474	-	(1,445)
Title III, Part C-Nutrition Services	93.045	2013-001-01	29,801	(3,511)	3,511	-	-	-
Title III, Part C-Nutrition Services	93.045	2014-001-16	31,982	-	27,851	31,982	-	(4,131)
Subtotal				(3,511)	31,362	31,982	-	(4,131)
Aging Cluster Subtotal				(3,511)	47,391	49,456	-	(5,576)
Special Programs for the Aging-								
Title III, Part D-Disease Prevention and Health Promotion Services	93.043	2014-001-16	1,335	-	1,168	1,335	-	(167)
Subtotal				-	1,168	1,335	-	(167)

VALLEY 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	Award/Pass- through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2014
National Family Caregiver Support, Title III, Part E	93.052	2014-001-16	2,400	-	1,984	2,259	-	(275)
Subtotal				-	1,984	2,259	-	(275)
Total U.S. Department of Health and Human Services				(15,311)	103,418	103,031	(1,984)	(16,908)
<u>U.S. Department of the Interior:</u>								
Direct Programs:								
Invasive and Noxious Plant Management	15.230	L09AC15421	40,000	-	40,000	18,385	-	21,615
Subtotal				-	40,000	18,385	-	21,615
Bankhead Jones Farm Tenant Act	15.999	N/A	21,528	-	21,528	21,528	-	-
Bankhead Jones Farm Tenant Act	15.999	N/A	22,344	(22,344)	22,344	-	-	-
Subtotal				(22,344)	43,872	21,528	-	-
Refuge Revenue Sharing	15.659	N/A	6,912	-	-	6,912	-	(6,912)
Refuge Revenue Sharing	15.659	N/A	5,222	(5,222)	5,222	-	-	-
Subtotal				(5,222)	5,222	6,912	-	(6,912)
National Fire Plan-Wildland Urban Interface Community Assistance	15.228	N/A	100,000	(861)	-	-	861	-
Subtotal				(861)	-	-	861	-
Total direct programs				(28,427)	89,094	46,825	861	14,703
Total U.S. Department of the Interior				(28,427)	89,094	46,825	861	14,703
<u>U.S. Department of Agriculture:</u>								
Passed through State Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	VFA-14-530	6,600	-	-	6,600	-	(6,600)
Cooperative Forestry Assistance	10.664	VFA-13-530	7,000	(7,000)	7,000	-	-	-
Subtotal				(7,000)	7,000	6,600	-	(6,600)
Total U.S. Department of Agriculture				(7,000)	7,000	6,600	-	(6,600)
Total Federal Awards				\$ (698,942)	\$ 1,184,655	\$ 1,215,107	\$ (6,797)	\$ (736,191)

Note 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.

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

U.S. DEPARTMENT OF HOMELAND SECURITY:

2013-15. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

Criteria: Per OMB Circular A-87, *COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS*, the total cost of Federal awards is comprised of the allowable direct costs of the program. Direct costs are those that can be identified specifically with a particular final cost objective.

Condition: Program expenditures for personnel costs were not separately identified in the general ledger.

Questioned Costs: None.

Cause: Unknown.

Effect: Non-compliance with program terms and conditions and OMB Circular A-87.

Recommendation: On future disaster programs, the auditors recommended grant program expenditures be separately identified in the general ledger.

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

2013-16. All Major Programs

Criteria: The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items and provides controls to safeguard the assets.

Condition: Detail capital asset subsidiary records were not available to support the general ledger control accounts.

Cause: During fiscal year 2010, the government hired a third-party to perform a physical inventory of all county-owned assets; however, it was determined the inventory was not complete. Detail lists were sent to department heads to reconcile the differences. As of June 30, 2013, the corrected lists from the department heads were not used to update the subsidiary records and the general ledger accounts.

Effect: Qualified audit opinion.

Recommendation: The inventory, along with department heads input, should be used to update the capital asset subsidiary records and adjust and correct the capital asset control accounts.

Status: The finding related to detail property records is repeated in the Schedule of Findings and Questioned Costs.

2013-17. All Major Programs

Criteria: The auditors 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: 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.

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

2013-18. 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.

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of County Commissioners
Valley County
Glasgow, 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 Valley 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 24, 2014. The report on governmental activities, business-type activities and the enterprise fund was qualified because of inadequacies of the government's capital asset accounting records. Also, our report on governmental activities, the general fund, the road fund and the aggregate remaining fund information was qualified because materials and supplies inventory was not recorded. Further, the report on governmental activities, business-type activities and enterprise fund was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense.

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 2014-008 and 2014-012)

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 deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (Findings 2014-009 through 2014-011)

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items Findings 2014-011 and 2014-012.

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

Purpose of this Report

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

O'Leary & Associates, PC

Billings, Montana
November 24, 2014

OLNESS & ASSOCIATES, P. C.

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

To the Board of County Commissioners
Valley County
Glasgow, Montana

Report on Compliance for Each Major Federal Program

We have audited Valley 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.

Basis for Qualified Opinions on Disaster Grants-Public Assistance and Formula Grants for Other Than Urbanized Areas

As described in Findings 2014-013 and 2014-014 in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding the following:

<u>Finding No.</u>	<u>CFDA No.</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2014-013	97.036	Disaster Grants-Public Assistance	Allowable Costs
2014-014	20.509	Formula Grants for Other Than Urbanized Areas	Equipment and Real Property Management
2014-014	97.036	Disaster Grants-Public Assistance	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to those programs.

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

Qualified Opinion on Disaster Grants-Public Assistance and Formula Grants for Other Than Urbanized Areas

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, 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 Disaster Grants-Public Assistance and Formula Grants for Other Than Urbanized Areas for the year ended June 30, 2014.

Other Matters

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

Report on Internal Control over Compliance

Management of 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.

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 2014-013 through 2014-016 to be material weaknesses.

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

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

Olmstead & Associates, PC

Billings, Montana
November 24, 2014

VALLEY 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: qualified 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>
20.509	Formula Grants for Other Than Urbanized Areas
97.036	Disaster Grants-Public Assistance

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. CAPITAL ASSETS

Criteria: The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items and provides controls to safeguard the assets.

Condition: Detail capital asset subsidiary records are not available to support the general ledger control accounts.

Cause: During fiscal year 2010, the government hired a third-party to perform a physical inventory of all county-owned assets; however, it was determined the inventory was not complete. Detail lists were sent to department heads to reconcile the differences. As of June 30, 2014, the corrected equipment lists from the department heads were not used to update the equipment subsidiary records and the general ledger accounts. Additionally, a listing of land, buildings and improvements also was not available.

Effect: Qualified audit opinion.

Recommendation: Because of the length of time since the last inventory and the fact that it was not correct, the county should contract with a third-party to perform a complete physical count of county owned-assets. The inventory should be used to update the equipment capital asset subsidiary records and adjust and correct the equipment capital asset control accounts. Additionally, a complete list of land, buildings and improvements should be developed. The information should include date of purchase and historical cost. If historical cost is not available, an estimated historical cost should be

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

developed.

Client Response: The list of county land is compiled and the commissioner's office is in process of determining value. Using the acquisition date and the CPI website the present value will be generated. The Northwest Valuations inventory, done in 2010, will be basis for visits with department heads to update assets and inventory. Olness and Associates has recommended that we hire a new inventory be done but commissioners, for financial reason, have decided to use the 2010 inventory along with an aggressive campaign to get the department heads to make accurate, current complete accounting. Resolution No. 22-2010 will be used to classify and capitalize fixed assets. Lesser value assets that should be insured will be listed based on information from company that does our insurance and the updated material from department heads. Maintenance personnel will be given a camera to make video record for insurance purposes. Department heads will be advised that they should enter asset purchase claims correctly (900) as a way to help keep the assets current and correct.

2014-002. SUPPLY INVENTORY

Criteria: U.S. generally accepted accounting principles require materials and supply inventory be recorded in the financial statements.

Condition: The government performed year-end physical counts of materials and supplies for the road, bridge, weed and mosquito. However, the amounts were not recorded in the general ledger. Additionally, year-end inventories for the airport fuel were not performed.

Cause: Unknown.

Effect: Assets of the governmental activities, general fund, road fund and aggregate remaining fund information are understated, net assets are understated and expenses are overstated.

Recommendation: Year-end physical counts of materials and supplies for the road, bridge, weed, airport, and mosquito funds should be performed as of June 30, 2015. Once completed, the results should be forwarded to the Clerk and Recorder. A year-end journal voucher should be posted to the general ledger to record the inventory, related expenditure and prior period adjustments for beginning balances in each of the respective funds.

Client Response: Commissioners feel confident that the above mentioned inventories will be gathered each year before end of fiscal year. Inventory will be compiled in the commissioners' office and then forwarded to the clerk and recorder. Next year during budget discussion the size of inventory will be considered as revenue/cash as commissioners consider funding for department expenditure budgets.

2014-003. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements and schedule of expenditures 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 on 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 government should continue to read its draft financial statements and SEFA and ensure the quality of the document and the preparer.

Client Response: Valley County government is a small entity and there are not resources available to comply with this finding. Valley County continues to hire Olness and Associates to be the audit firm to prepare the financial statements and SEFA. Valley County continues, to best of its ability, to read, monitor, edit and approve drafts prepared by Olness.

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

2014-004. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities, business-type activities and proprietary funds' liabilities are understated, net position is overstated and expenses are understated.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

Client Response: Over the past years, Valley County has taken the position that cost, and questionable worth of the result, did not warrant the expenditure. The cost and benefit were discussed after this auditor's report and there will be no change to previous decision on this matter.

2014-005. 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.

Client Response: Valley County has implemented all previous suggestions received from auditors but size of entity limits the county's ability to achieve complete desegregation. Olness and Associates suggested certain departments should make efforts to have one employee do billing and a different employee collect the payments. An alternative would be to have bill payments sent straight to treasurer's Office. Departments that are in process of implementing this protocol are refuse, public health, and the fair.

2014-006. JUSTICE OF THE PEACE TIME PAY ACCOUNTING

Criteria: The Montana Supreme Court Administrator's Office Full Court Accounting Responsibility & Compliance Guidelines that have been adopted by the Courts of Limited Jurisdiction Automation Committee outlines court personnel accounting responsibilities. The guidelines require court personnel to develop and maintain a system of internal controls to safeguard court resources, check the accuracy of clerical entries, promote operational efficiency, and encourage adherence to prescribed accounting procedures. Effective internal control over time pay accounts requires a reconciliation of the monthly time pay activity to the beginning and ending time pay balances to be prepared to determine that all transactions have been recorded properly and to discover errors and irregularities. Further, a formal time pay reconciliation is a useful tool in evaluating and monitoring outstanding time pay balances.

Condition: The Justice of the Peace office does not perform a monthly time pay account reconciliation.

Cause: Unknown.

Effect: Not reconciling the time pay accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Recommendation: The Justice of the Peace office should prepare a formal reconciliation of time pay activity to the beginning and ending time pay balances on a monthly basis. Once completed, the reconciliation should be reviewed and approved by the Justice of the Peace.

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

Client Response: Discussion with this department will continue, and the problems with State program have been part of past discussions to. The recent election will find a new Justice of Peace in Valley County and she has just completed training with the Montana Department of Justice. As of the date of this response, no contact has been made with new Justice concerning this finding. After official change of Justice in January, the discussion will be held and the goal will be to change protocol and address the finding and the auditor recommendation.

2014-007. COUNTY 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: We noted that the fair does not have formal, documented accounting policies and procedures.

Cause: Unknown.

Effect: Lack of accounting procedures for the overall fair operations exposes the government to risk of loss or theft.

Recommendation: We recommend the accounting policies and procedures and overall operation of the fair be reviewed and updated to strengthen internal control over the fair operations.

Client Response: The fair board continues to work towards this goal and progress is being made. More policies have been generated and there was increased segregation of duties concerning funds during the last fair.

2014-008. HEALTH DEPARTMENT

Criteria: Written accounting policies and procedures provide guidance to the health department administrator and employees.

Condition: We noted that the health department does not have formal, documented accounting policies and procedures.

Cause: Unknown.

Effect: Lack of accounting procedures for the health department exposes the government to risk of loss or theft.

Recommendation: We recommend accounting policies and procedures for the health department be developed and formally documented. Items should include, but not be limited to, billing, collecting, monitoring delinquent accounts and write off of accounts deemed uncollectible.

Criteria: In order to make the health department accounting records generated by the accounting system as meaningful as possible, the health department general ledger accounts receivable balance should be updated on a monthly basis.

Condition: The health department accounts receivable is not recorded in the general ledger.

Cause: Unknown.

Effect: Errors may accumulate but cannot be identified and attributed to a particular period.

Recommendation: On a monthly basis, billing, collection and accounts receivable reports should be provided to the clerk and recorder. The reports should be used to develop a journal voucher to update the accounts receivable balances in the general fund. At the end of each month, the aged accounts receivable schedule should be agreed to the accounts receivable balance in the general ledger. Differences, if any, should be investigated and resolved.

Client Response: The public health department has implemented separation of billing and collection. Auditors suggested the public health start to use Quick Books to help with inventory and public health is now using that program with positive results.

2014-009. RECONCILE PAYROLL WAGE BASES

Criteria: Reconciling the various wage bases (gross, federal, social security, state unemployment wage and worker's compensation) would identify errors, if any, in individual employee setups.

Condition: Procedures to reconcile the various wage bases are not in place.

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

Cause: Unknown.

Effect: The possibility of the underpayment or overpayment of employment taxes.

Recommendation: The various wage bases should be reconciled at the end of each month.

Client Response: The Clerk and Recorder Office is aware of this finding and they have implemented the recommendation.

2014-010. REQUIRED SUPPLEMENTARY INFORMATION

Criteria: Accounting principles generally accepted in the United States of America require the management's discussion and analysis to be presented to supplement the basic financial statements.

Condition: Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

Cause: Unknown.

Effect: Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Recommendation: The County should develop a management's discussion and analysis as required by accounting principles generally accepted in the United States.

Client Response: Valley County chose not to do a management's discussion and analysis for FY 14. This finding and strategic budget have been discussed and another round of discussion will take place when the new commissioner is seated in January of 2015.

2014-011. COMPETITIVE BIDDING

Criteria: Section 7-5-2301, MCA, specifies a contract for any purchase in excess of \$80,000 may not be entered into by a county governing body without first publishing a notice calling for bids.

Condition: The County purchased bulk fuel with a total cost in excess of \$80,000 without going through the formal bid process.

Cause: Unknown

Effect: Noncompliance with state procurement statutes.

Recommendation: A contract for any purchase in excess of \$80,000 should be formally advertised for bid in accordance with Section 7-5-2301, MCA.

Client Response: The Road Department had opportunity to make a one-time large purchase of fuel and did so without bidding. In past, there has only been one county dealer who has shown any interest in providing fuel bid. It may be time to try bidding normal fuel consumption again, but that decision will be delayed until the new commissioner is on board.

2014-012. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT NO. FEMA 4127-DR-MT and FEMA 1996-DR-MT

Criteria: Per OMB Circular A-87, *COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS*, the total cost of Federal awards is comprised of the allowable direct costs of the program. Direct costs are those that can be identified specifically with a particular final cost objective.

Condition: Program expenditures for personnel costs were not separately identified in the general ledger.

Questioned Costs: None.

Cause: Unknown.

Effect: Non-compliance with program terms and conditions and OMB Circular A-87.

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

Recommendation: On future disaster programs, grant program expenditures should be separately identified in the general ledger.

Client Response: FEMA projects always deal with our DES and Road Departments. Olness and Associates have repeatedly told us that those departments have received high praise from FEMA because our Valley County personnel are always prepared and cooperative. They have been advised about the need for personnel costs to be separately identified and it will be done in future projects.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOMELAND SECURITY:

2014-013. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT NO. FEMA 4127-DR-MT and FEMA 1996-DR-MT

Finding 2014-012 applies to this federal award program.

2014-014. All Major Programs as Described in Section I-Summary of Auditor Results

Finding 2014-001 applies to these federal award programs.

2014-015. All Major Programs as Described in Section I-Summary of Auditor Results

Finding 2014-003 applies to these federal award programs.

2014-016. All Major Programs as Described in Section I-Summary of Auditor Results

Finding 2014-005 applies to these federal award programs.

VALLEY COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. CAPITAL ASSETS	NOT IMPLEMENTED
2013-2. SUPPLY INVENTORY	PARTIALLY IMPLEMENTED
2013-3. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-4. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-5. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-6. JUSTICE OF THE PEACE TIME PAY ACCOUNTING	NOT IMPLEMENTED
2013-7. COUNTY FAIR	NOT IMPLEMENTED
2013-8. REFUSE DISTRICT ACCOUNTS RECEIVABLE	IMPLEMENTED
2013-9. REFUSE DISTRICT	IMPLEMENTED
2013-10. REQUIRED SUPPLEMENTARY INFORMATION	NOT IMPLEMENTED
2013-11. BID SECURITY	IMPLEMENTED
2013-12. CONTRACT PERFORMANCE SECURITY	IMPLEMENTED
2013-13. STATE PREVAILING WAGE RATES	IMPLEMENTED
2013-14. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT	NOT IMPLEMENTED