FERGUS COUNTY
LEWISTOWN, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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FERGUS COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

Ken Ronish	Presiding Officer
Sandra Youngbauer	Commissioner
Carl Seilstad	Commissioner

COUNTY OFFICIALS

Thomas Meissner	Attorney
Rana Wichman	Clerk and Recorder
Phyllis Smith	Clerk of Court
Richard Brown	Coroner
Jack Shields	Justice of the Peace
Gary Kruger	Public Administrator
Thomas Killham	Sheriff
Rhonda Long	Superintendent of Schools
Dolores R. Sramek	Treasurer

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Fergus County
Lewistown, 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 Fergus County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions

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

Because of inadequacies in the government's accounting records, we were unable to form an opinion regarding the classification of federal and state emergency disaster revenue (intergovernmental) between the road fund and aggregate remaining fund information.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Qualified Opinions

In our opinion, except for the possible effects of the matters discussed in the first and second paragraphs under the heading "Basis for Qualified Opinions" and except for the effects of the matter described in the third 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, the business-type activities, the road fund, the weed fund, the airport fund (a major 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 each major governmental fund (excluding the road and weed 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 management's discussion and analysis and 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.

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 March 13, 2015, 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.

Olness & Associates, PC

Billings, Montana
March 13, 2015

Our discussion and analysis of the County's financial performance provides an overview of the government's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with our financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of Fergus County exceeded its liabilities at the close of fiscal year 2014 by $20,111,734. Of this amount, $2,641,546 may be used to meet the County's ongoing operational needs and $12,252,595 was invested in capital assets, net of related debt.
- The County's total net position increased by $861,422 as a result of this year's operations.
- The general fund's budgeted amounts were increased $4,000 during the year. Actual revenues were $81,731 more than budgeted revenues, while actual expenditures were $268,519 less than budgeted appropriations.

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements One of the most important questions asked about the government's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities (pages 8 and 9) report information about the government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, our government is divided into two kinds of activities:

Governmental activities—Basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.

Business-type activities—Fees charged to customers to help it cover all or most of the cost of certain services it provides. The Hospital and Airport funds are reported here.

Fund financial statements The fund financial statements (pages 10 through 18) provide detailed information about the most significant funds—not the government as a whole. Some funds are required to be established by State law and by bond covenants. Also, the governing body establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. We utilize the following funds:

Governmental funds—Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Position and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively).

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

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

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, the assets of Fergus County exceeded its liabilities at the close of fiscal year 2014 by $20,111,734. Of this amount, $2,641,546 may be used to meet the County's ongoing operational needs and $12,252,595 was invested in capital assets, net of related debt. Restricted net position for the governmental activities is subject to external resources on how they are used. There is not currently any business-type activities restricted net position.

NET POSITION:

	Governmental		Business-type		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 8,887,167	$ 8,247,059	$ 101,844	$ 4,326,221	$ 8,989,011	$ 12,573,280
Capital assets	9,566,185	8,977,631	3,446,404	3,796,935	13,012,589	12,774,566
Total assets	18,453,352	17,224,690	3,548,248	8,123,156	22,001,600	25,347,846
Other liabilities	656,212	569,998	19,814	228,986	676,026	798,984
Long-term liabilities	1,020,684	1,066,265	193,156	435,350	1,213,840	1,501,615
Total liabilities	1,676,896	1,636,263	212,970	664,336	1,889,866	2,300,599
Net position						
Net investment in capital assets	8,981,679	8,331,380	3,270,916	3,596,162	12,252,595	11,927,542
Restricted	5,217,593	4,569,342	-	-	5,217,593	4,569,342
Unrestricted	2,577,184	2,687,705	64,362	65,723	2,641,546	2,753,428
	$ 16,776,456	$ 15,588,427	$ 3,335,278	$ 3,661,885	$ 20,111,734	$ 19,250,312

CHANGE IN NET POSITION:	Governmental		Business-type		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 1,419,363	$ 1,292,990	$ 230,824	$ 231,687	$ 1,650,187	$ 1,524,677
Operating grants and contributions	1,711,524	1,442,041	-	-	1,711,524	1,442,041
Capital grants and contributions	652,961	2,006,605	-	-	652,961	2,006,605
General revenues:						
Taxes	4,163,874	4,007,426	-	-	4,163,874	4,007,426
Licenses and permits	800	750	-	-	800	750
Intergovernmental	1,641,162	1,423,014	25,700	-	1,666,862	1,423,014
Unrestricted investment earnings	44,210	43,230	4,925	15,536	49,135	58,766
Miscellaneous	531,445	85,082	251	85	531,696	85,167
Gain on disposal of capital assets	381,000	-	-	-	381,000	-
Total revenues	10,546,339	10,301,138	261,700	247,308	10,808,039	10,548,446
Expenses:						
General government	2,465,542	2,622,302	-	-	2,465,542	2,622,302
Public safety	1,851,503	1,600,730	-	-	1,851,503	1,600,730
Public works	3,184,467	3,207,446	-	-	3,184,467	3,207,446
Public health	942,606	888,660	-	-	942,606	888,660
Social and economic services	216,287	197,727	-	-	216,287	197,727
Culture and recreation	680,652	556,803	-	-	680,652	556,803
Housing and community development	9,135	59,974	-	-	9,135	59,974
Airport	-	-	583,992	567,472	583,992	567,472
Hospital	-	-	4,315	14,872	4,315	14,872
Interest on long-term debt	8,118	25,915	-	-	8,118	25,915
Total expenses	9,358,310	9,159,557	588,307	582,344	9,946,617	9,741,901
Transfers	-	(207,591)	-	207,591	-	-
Change in net position	1,188,029	933,990	(326,607)	(127,445)	861,422	806,545
Net position, beginning	15,588,427	14,654,437	3,661,885	3,789,330	19,250,312	18,443,767
Net position, ending	$ 16,776,456	$ 15,588,427	$ 3,335,278	$ 3,661,885	$ 20,111,734	$ 19,250,312

Net position for governmental activities increased $1,188,029. The increase is mainly due to capital grants. Net position for business-type activities decreased $326,607 mainly due to current year depreciation.

FUND FINANCIAL STATEMENTS

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

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

The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

General Fund – The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except for those accounted for in another fund. At the end of the fiscal year, unassigned fund balance was $746,704. Overall fund balance decreased $261,963. Available fund balance was used to fund current year operations.

Road Fund – The road fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned roads. At the end of fiscal year 2014, the fund balance of the road fund was $689,956, an increase of $44,984.

Weed Fund – The weed fund accounts for revenues and expenditures related to an extensive weed abatement and prevention program within Fergus County. At the end of fiscal year 2014, fund balance for the weed fund was $110,739, a decrease of $68,455. Available

fund balance was used to fund current year operations.

PILT Fund – The PILT (payment in lieu of taxes) fund accounts for resources accumulated from the federal government for payments in lieu of taxes. Expenditures from the fund are at the discretion of the Board of County Commissioners. Overall fund balance increased $286,650. The increase occurred because PILT resources were not transferred to other funds.

Airport Fund – Net position decreased $326,607 mainly due to current year depreciation expense.

GENERAL FUND ANALYSIS OF SIGNIFICANT BUDGETARY VARIATIONS

The general fund's budgeted amounts were increased $4,000 during the year. Actual revenues were $81,731 more than budgeted revenues, while actual expenditures were $268,519 less than budgeted appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Fergus County's net investment in capital assets, as of June 30, 2014, was $12,252,595. Invested in capital assets includes property, buildings, improvements, machinery, equipment and infrastructure (i.e. roads, bridges, etc.). For more information related to capital assets, see the notes to the basic financial statements.

Compensated absences are a liability of the County for unpaid vacation leave, sick leave, and compensatory time. The liability typically increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability at June 30, 2014, was $453,846, an increase of $16,083. Other debt outstanding consists of notes payable, with various maturities.

THE GOVERNMENT'S FUTURE

Fergus County sustained several million dollars worth of damage on hundreds of sites due to the spring snow melt and the disastrous flooding that followed in FY2011. While it was not as extensive, we sustained additional flood damage in FY2013. Our road and bridge departments, along with our DES and sheriff's department all continue to diligently work through this. There continues to be paperwork with FEMA. For projects not covered by FEMA there are grants to apply for and administer if we are successful in getting them. The wear and tear on equipment is something that is easily overlooked in the big picture, but it plays a huge part in the recovery of the County. We are hopefully winding up these projects and can move on to the regular day to day operations of the County.

The following factors were considered when preparing the Fergus County Budgets for FY2015:

- Utility and fuel costs are a major concern for several of Fergus County's departments, including but not limited to the road, bridge, weed, and sheriff. It is hard to budget when the costs are so unpredictable from year to year.
- Trying to keep a living wage for County employees is something that is looked at each year. Fergus County is typically not competitive with its wages so we end up training employees and then they move on to higher paying jobs. This is a struggle that will be faced for many years to come.
- The jail continues to need updates and improvements. An outside exercise yard along with updates to the current structure are in the budget for FY1415, and construction has begun.
- Energy efficiency work continues to be done throughout the County. This includes insulation and maintenance on the road and weed buildings. Continuing on a rotation schedule with replacement of large equipment for the road and bridge departments is essential and is always a budgetary concern.
- Concern over the possible discontinuance of PILT monies forces us to look to the future years for funding options.
- Technology is expensive and it is essential that the County keep up with the needed information and equipment. This will continue to be a budgetary concern for many years to come for most if not all departments. Building and maintaining a County website is essential to be able to keep County residents up to date on the County proceedings, but it all takes time and money.
- All elected officials and department heads were asked to cut any non-essential items from their budget(s).
- A special mill levy was passed to construct a new water and sewer system for the Central Montana Fairgrounds. The current sewer system at the fairgrounds is failing and is no longer capable of handling the extensive use, especially during the Central Montana Fair.
- The economy in downtown Lewistown continues to be in a downward trend. There are many empty storefronts on main street. This continues to have a considerable impact on not just Lewistown, but Fergus County.
- The rising cost of health insurance is a major concern for Fergus County. We were self-insured until September 1, 2014, when we signed up with MACo Health Care Trust. Our employee base is aging and we have had a couple of very expensive years so the cost of coverage is extremely high. 30 mills were milled for employee health insurance compared to 24 mills in FY1213. This will not cover the projected expenses. Money was transferred from the self-insurance fund to help with the costs this year.

FERGUS COUNTY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	$ 3,455,231	$ 40,592	$ 3,495,823
Investments	4,256,145	50,002	4,306,147
Receivables:			
Taxes and assessments	233,430	-	233,430
Governments	550,689	-	550,689
Roundhouse road	17,588	-	17,588
Stop loss	27,878	-	27,878
Other	103,679	11,250	114,929
Inventories	242,527	-	242,527
Capital assets:			
Land and construction in progress	393,861	293,737	687,598
Capital assets, net of accumulated depreciation	9,172,324	3,152,667	12,324,991
Total assets	18,453,352	3,548,248	22,001,600
LIABILITIES			
Accounts payable:			
Vendors	346,945	16,932	363,877
IBNR	275,021	-	275,021
Due to Central Montana Medical Center	-	2,882	2,882
Unearned revenues	34,246	-	34,246
Long-term liabilities:			
Due within one year:			
Notes	63,404	25,456	88,860
Compensated absences	43,618	1,767	45,385
Due in more than one year:			
Notes	521,102	150,032	671,134
Compensated absences	392,560	15,901	408,461
Total liabilities	1,676,896	212,970	1,889,866
NET POSITION			
Net investment in capital assets	8,981,679	3,270,916	12,252,595
Restricted for:			
General government	671,433	-	671,433
Public safety	120,696	-	120,696
Public works	1,180,967	-	1,180,967
Public health	987,832	-	987,832
Social and economic services	68,452	-	68,452
Culture and recreation	100,539	-	100,539
Housing and community development	482,541	-	482,541
Capital projects	1,605,133	-	1,605,133
Unrestricted	2,577,184	64,362	2,641,546
Total net position	$ 16,776,456	$ 3,335,278	$ 20,111,734

See notes to basic financial statements.

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General government	$ 2,463,897	$ 205,425	$ 8,147	$ -	$ (2,250,325)	$ -	$ (2,250,325)
Public safety	1,849,168	123,917	240,052	-	(1,485,199)	-	(1,485,199)
Public works	3,186,102	423,154	1,099,060	594,041	(1,069,847)	-	(1,069,847)
Public health	943,342	343,896	311,392	-	(288,054)	-	(288,054)
Social and economic services	216,435	-	-	-	(216,435)	-	(216,435)
Culture and recreation	682,113	322,971	52,873	58,920	(247,349)	-	(247,349)
Housing and community development	9,135	-	-	-	(9,135)	-	(9,135)
Interest on long-term debt	8,118	-	-	-	(8,118)	-	(8,118)
Total governmental activities	9,358,310	1,419,363	1,711,524	652,961	(5,574,462)	-	(5,574,462)
Business-type activities:							
Hospital	4,315	-	-	-	-	(4,315)	(4,315)
Airport	583,992	230,824	-	-	-	(353,168)	(353,168)
Total business-type activities	588,307	230,824	-	-	-	(357,483)	(357,483)
Total	$ 9,946,617	$ 1,650,187	$ 1,711,524	$ 652,961	(5,574,462)	(357,483)	(5,931,945)
General revenues:							
Property taxes					4,163,874	-	4,163,874
Licenses and permits					800	-	800
Intergovernmental					1,641,162	25,700	1,666,862
Unrestricted investment earnings					44,210	4,925	49,135
Miscellaneous					531,445	251	531,696
Gain on disposal of capital assets					381,000	-	381,000
Total general revenues					6,762,491	30,876	6,793,367
Change in net position					1,188,029	(326,607)	861,422
Net position - beginning					15,588,427	3,661,885	19,250,312
Net position - ending					$ 16,776,456	$ 3,335,278	$ 20,111,734

See notes to basic financial statements.

FERGUS COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Road	Weed	PILT	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 376,161	$ 220,055	$ 75,777	$ 1,113,510	$ 1,350,924	$ 3,136,427
Investments	463,358	106,412	36,643	538,460	2,718,570	3,863,443
Receivables:						
Taxes and assessments	94,581	33,944	3,453	-	101,452	233,430
Governments	22,172	377,299	5,670	-	145,548	550,689
Roundhouse road	-	-		-	17,588	17,588
Other	-	-	-	-	103,679	103,679
Due from other funds	-	-	-	-	60,533	60,533
Inventories	-	55,425	78,112	-	108,990	242,527
Total assets	$ 956,272	$ 793,135	$ 199,655	$ 1,651,970	$ 4,607,284	$ 8,208,316
LIABILITIES						
Accounts payable-vendors	$ 114,987	$ 34,989	$ 85,463	$ -	$ 111,506	$ 346,945
Due to other funds	-	-	-	-	60,533	60,533
Unearned revenues	-	34,246	-	-	-	34,246
Total liabilities	114,987	69,235	85,463	-	172,039	441,724
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-taxes and assessments	94,581	33,944	3,453	-	101,452	233,430
Total deferred inflows of resources	94,581	33,944	3,453	-	101,452	233,430
FUND BALANCES (DEFICITS)						
Nonspendable:						
Inventory	-	55,425	78,112	-	108,990	242,527
Noncurrent portion of advance to funds	-	-	-	-	59,256	59,256
Restricted:						
General government	-	-	-	-	614,817	614,817
Public safety	-	-	-	-	120,696	120,696
Public works	-	634,531	32,627	-	215,947	883,105
Public health	-	-	-	-	980,083	980,083
Social and economic services	-	-	-	-	59,402	59,402
Culture and recreation	-	-	-	-	94,728	94,728
Housing and community development	-	-	-	-	423,285	423,285
Capital projects	-	-	-	-	1,600,845	1,600,845
Committed:						
General government	-	-	-	1,651,970	98,689	1,750,659
Unassigned	746,704	-	-	-	(42,945)	703,759
Total fund balances (deficits)	746,704	689,956	110,739	1,651,970	4,333,793	7,533,162
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 956,272	$ 793,135	$ 199,655	$ 1,651,970	$ 4,607,284	$ 8,208,316

See notes to basic financial statements.

FERGUS COUNTY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2014

Total fund balances, governmental funds	$ 7,533,162
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position.	9,566,185
Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position.	233,430
The assets and liabilities of the self-insurance fund (internal service) are not included in the fund financial statements, but are included in the governmental activities of the statement of net position.	464,363
Some liabilities (such as notes payable and compensated absences) are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities statement of net position.	(1,020,684)
Net position of governmental activities	$ 16,776,456

See notes to basic financial statements.

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

	General	Road	Weed	PILT	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	$ 1,907,231	$ 500,875	$ 50,890	$ -	$ 1,759,059	$ 4,218,055
Fines and forfeitures	91,958	-	-	-	9,923	101,881
Licenses and permits	800	-	-	-	29,320	30,120
Intergovernmental	518,756	1,355,059	33,635	380,151	1,492,789	3,780,390
Charges for services	463,226	133,202	209,060	-	535,278	1,340,766
Investment earnings	21,983	11	1	6,330	12,379	40,704
Miscellaneous	11,911	68,440	-	-	545,094	625,445
Total revenues	3,015,865	2,057,587	293,586	386,481	4,383,842	10,137,361
EXPENDITURES						
Current:						
General government	1,668,683	-	-	24,831	673,875	2,367,389
Public safety	1,637,746	-	-	-	98,338	1,736,084
Public works	-	1,649,365	347,203	-	753,612	2,750,180
Public health	258,977	-	-	-	669,631	928,608
Social and economic services	6,270	-	-	-	192,279	198,549
Culture and recreation	-	-	-	-	564,360	564,360
Housing and community development	-	-	-	-	9,135	9,135
Debt service:						
Principal	24,088	37,657	-	-	-	61,745
Interest and other charges	2,459	5,659	-	-	-	8,118
Capital outlay	-	401,434	28,000	75,000	298,288	802,722
Total expenditures	3,598,223	2,094,115	375,203	99,831	3,259,518	9,426,890
Excess (deficiency) of revenues over expenditures	(582,358)	(36,528)	(81,617)	286,650	1,124,324	710,471
OTHER FINANCING SOURCES (USES)						
Transfers in	342,800	81,512	13,162	-	123,414	560,888
Transfers out	(22,405)	-	-	-	(538,483)	(560,888)
Total other financing sources (uses)	320,395	81,512	13,162	-	(415,069)	-
Net change in fund balances	(261,963)	44,984	(68,455)	286,650	709,255	710,471
Fund balances - beginning	1,008,667	644,972	179,194	1,365,320	3,624,538	6,822,691
Fund balances - ending	$ 746,704	$ 689,956	$ 110,739	$ 1,651,970	$ 4,333,793	$ 7,533,162

See notes to basic financial statements.

FERGUS 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	$ 710,471
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlay for capital assets as expenditures because such outlay uses current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
This is the amount by which capital outlay ($802,722) exceeded depreciation ($640,420) in the current period.	162,302
Governmental funds report the entire net sales price from the sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the asset.	381,000
Capital assets contributed	45,252
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	(20,780)
Governmental funds report debt proceeds as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This amount is the amount of repayments.	61,745
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	
Compensated absences	(16,164)
Internal service funds are used by management to charge the costs of certain activities, such as self insurance, to individual funds. The change in net position of the self insurance internal service fund is reported with governmental activities.	(135,797)
Change in net position of governmental activities	$ 1,188,029

See notes to basic financial statements.

FERGUS COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Enterprise Funds			Governmental Activities
	Airport	Other Enterprise Fund	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ 37,710	$ 2,882	$ 40,592	$ 318,804
Investments	50,002	-	50,002	392,702
Receivables:				
Stop loss	-	-	-	27,878
Other	11,250	-	11,250	-
Total current assets	98,962	2,882	101,844	739,384
Capital assets:				
Land	293,737	-	293,737	-
Buildings and improvements	8,245,679	-	8,245,679	-
Machinery and equipment	201,496	-	201,496	-
Less: accumulated depreciation	(5,294,508)	-	(5,294,508)	-
Total non-current assets	3,446,404	-	3,446,404	-
Total assets	3,545,366	2,882	3,548,248	739,384
LIABILITIES				
Current liabilities:				
Accounts payable	16,932	-	16,932	275,021
Due to Central Montana Medical Center	-	2,882	2,882	-
Compensated absences	1,767	-	1,767	-
Notes payable	25,456	-	25,456	-
Total current liabilities	44,155	2,882	47,037	275,021
Non-current liabilities:				
Compensated absences	15,901	-	15,901	-
Notes payable	150,032	-	150,032	-
Total non-current liabilities	165,933	-	165,933	-
Total liabilities	210,088	2,882	212,970	275,021
NET POSITION				
Net investment in capital assets	3,270,916	-	3,270,916	-
Unrestricted	64,362	-	64,362	464,363
Total net position	$ 3,335,278	$ -	$ 3,335,278	$ 464,363

See notes to basic financial statements.

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

	Enterprise Funds			Governmental Activities
	Airport	Other Enterprise Fund	Total	Internal Service Fund
REVENUES				
Charges for services	$ 230,824	$ -	$ 230,824	$ 1,079,210
Total operating revenues	230,824	-	230,824	1,079,210
OPERATING EXPENSES				
Personal services	140,910	-	140,910	-
Supplies	15,211	-	15,211	-
Purchased services	69,412	-	69,412	-
Fixed charges	5,195	-	5,195	-
Administration and insurance	-	-	-	529,124
Claims	-	-	-	689,389
Depreciation	350,531	-	350,531	-
Total operating expenses	581,259	-	581,259	1,218,513
Operating loss	(350,435)	-	(350,435)	(139,303)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	610	4,315	4,925	3,506
Miscellaneous revenue	251	-	251	-
Intergovernmental	25,700	-	25,700	-
Interest expense	(2,733)	(4,315)	(7,048)	-
Total non-operating revenues (expenses)	23,828	-	23,828	3,506
Change in net position	(326,607)	-	(326,607)	(135,797)
Total net position - beginning	3,661,885	-	3,661,885	600,160
Total net position - ending	$ 3,335,278	$ -	$ 3,335,278	$ 464,363

See notes to basic financial statements.

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

	Enterprise Funds			Governmental Activities
	Airport	Other Enterprise Fund	Total	Internal Service Fund
CASH FLOWS FROM OPERATIONS:				
Cash received for health insurance premiums	$ -	$ -	$ -	$ 1,079,210
Cash received from customers	219,574	-	219,574	-
Medical claims paid	-	-	-	(508,108)
Cash paid to employees	(140,991)	-	(140,991)	-
Cash paid to suppliers for goods and services	(78,252)	-	(78,252)	(529,124)
Net cash provided by operating activities	331	-	331	41,978
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental	25,700	-	25,700	-
Cash from miscellaneous sources	251	-	251	-
Net decrease in amount due to CMMC	-	(220,738)	(220,738)	-
Net cash provided (used) by noncapital financing activities	25,951	(220,738)	(194,787)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Principal payments on debt	(25,285)	(216,827)	(242,112)	-
Interest paid	(2,733)	(4,315)	(7,048)	-
Net cash used by capital financing activities	(28,018)	(221,142)	(249,160)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net change in investments	3,522	137,632	141,154	14,757
Payments received on capital lease	-	216,827	216,827	-
Interest received	610	4,315	4,925	3,506
Net cash provided by investing activities	4,132	358,774	362,906	18,263
Change in cash and cash equivalents	2,396	(83,106)	(80,710)	60,241
Cash and cash equivalents - beginning	35,314	85,988	121,302	258,563
Cash and cash equivalents - ending	$ 37,710	$ 2,882	$ 40,592	$ 318,804
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating loss	$ (350,435)	$ -	$ (350,435)	$ (139,303)
Adjustment to reconcile operating loss to net cash provided by operating activities:				
Depreciation	350,531	-	350,531	-
(Increase) decrease in accounts receivable	(11,250)	-	(11,250)	109,792
Increase in accounts payable	11,566	-	11,566	71,489
Decrease in compensated absences	(81)	-	(81)	-
Net cash provided by operating activities	$ 331	$ -	$ 331	$ 41,978

See notes to basic financial statements.

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

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 6,141,531	$ 696,632
Investments	7,565,127	-
Taxes and assessments receivable	-	809,911
Total assets	13,706,658	$ 1,506,543
LIABILITIES		
Accounts payable:		
Accounts payable	-	$ 696,632
Due to others	-	13,765
Due to special districts	-	32,963
Due to state	-	100,320
Due to schools	-	523,860
Due to cities/towns	-	139,003
Total liabilities	-	$ 1,506,543
NET POSITION		
Held in trust	$ 13,706,658	

See notes to basic financial statements.

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

	External Investment Trust Fund
ADDITIONS	
Contributions	$ 13,806,880
Interest earnings	76,956
Total additions	13,883,836
DEDUCTIONS	
Withdrawals	13,472,641
Administrative	1,464
Total deductions	13,474,105
Change in net position	409,731
Net position - beginning	13,296,927
Net position - ending	$ 13,706,658

See 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 misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

The government reports the following major governmental funds:

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

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

The road fund accounts for resources accumulated from property taxes and state entitlement and payments made for the maintenance, repair and construction of county-owned roads.

The weed fund accounts for resources accumulated from property taxes, state entitlement and charges for services and payments made for control of county weeds.

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 government reports the following major proprietary funds:

The airport fund accounts for the activities of the government's airport services.

Additionally, the government reports the following fund types:

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

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

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

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

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 62% 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.

The government charges a 2% administrative fee to all participants in the pool. The fee is deducted prior to distributing interest to the County funds and pool participants. The administrative fee charged during the year was $2,418.

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 "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." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

Inventories

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

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 $10,000 for machinery and equipment, $20,000 for buildings and improvements and $35,000 for infrastructure and an estimated useful life in excess of five years. 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:

Assets	Years
Building and improvements	10-100
Infrastructure	100
Machinery and equipment	5-25

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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.

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

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

The governing body has by resolution authorized the clerk and recorder, in conjunction with the county commissioners to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

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 Roundhouse Road ($42,945) fund had a deficit fund balance as of June 30, 2014. The Roundhouse Road deficit is expected to be eliminated through the recovery of construction costs from hookup fees or a contribution 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	$ 7,711,376
Business-type activities	90,594
Fiduciary funds	14,403,290
	$ 22,205,260

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	$ 1,325	$ -	$ 1,325
Cash in banks:			
Demand deposits	2,457,222	-	2,457,222
Time deposits	-	105,187	105,187
Brokers:			
U.S. Government securities	-	11,766,087	11,766,087
Repurchase agreement	7,775,430	-	7,775,430
Short-term Investment Program (STIP)	100,009	-	100,009
	$ 10,333,986	$ 11,871,274	$ 22,205,260

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, $2,147,311 of the government's bank balance of $2,607,742 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	$ 2,147,311

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
Certificates of deposit	2.60%	Various	$ 105,187	$ 105,187	$ 105,187	0.89%
U.S. Government securities	.75-1.90%	Various	11,750,000	11,766,087	11,668,453	99.11%
				$ 11,871,274	$ 11,773,640	

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	Fair
	1	2	3	Amount	Value
Repurchase agreements	$ -	$ -	$ 7,775,430	$ 7,775,430	$ 7,775,430
Brokers:					
U.S. Government securities	1,000,000	-	10,766,087	11,766,087	11,668,453
	$ 1,000,000	$ -	$ 18,541,517	19,541,517	19,443,883
STIP				100,009	100,009
				$ 19,641,526	$ 19,543,892

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	$ 7,005,417	$ 13,296,927	$ 20,302,344
Contributions from participants	7,252,710	13,806,880	21,059,590
Investment earnings	47,793	76,956	124,749
Administration expenses	(954)	(1,464)	(2,418)
Distributions to participants	(5,806,364)	(13,472,641)	(19,279,005)
Net position - end of year	$ 8,498,602	$ 13,706,658	$ 22,205,260

Roundhouse Road Receivable

$16,310 of the Roundhouse Road receivable is not expected to be collected within one year.

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	$ 67,687	$ -	$ -	$ 67,687
Construction-in-progress	5,548	326,174	(5,548)	326,174
Total capital assets, not being depreciated	73,235	326,174	(5,548)	393,861
Capital assets, being depreciated				
Buildings/improvements	6,298,689	67,825	-	6,366,514
Machinery and equipment	5,721,576	737,324	(534,700)	5,924,200
Infrastructure	3,378,069	103,199	-	3,481,268
Total capital assets, being depreciated	15,398,334	908,348	(534,700)	15,771,982
Less accumulated depreciation for:				
Buildings/improvements	(2,629,984)	(162,244)	-	(2,792,228)
Machinery and equipment	(3,787,109)	(407,277)	534,700	(3,659,686)
Infrastructure	(76,845)	(70,899)	-	(147,744)
Total accumulated depreciation	(6,493,938)	(640,420)	534,700	(6,599,658)
Total capital assets, being depreciated, net	8,904,396	267,928	-	9,172,324
Governmental activities capital assets, net	$ 8,977,631	$ 594,102	$ (5,548)	$ 9,566,185

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 293,737	$ -	$ -	$ 293,737
Total capital assets, not being depreciated	293,737	-	-	293,737
Capital assets, being depreciated				
Buildings	115,181	-	-	115,181
Improvements other than buildings	8,130,498	-	-	8,130,498
Machinery and equipment	201,496	-	-	201,496
Total capital assets, being depreciated	8,447,175	-	-	8,447,175
Less accumulated depreciation for:				
Buildings	(50,095)	(1,840)	-	(51,935)
Improvements other than buildings	(4,711,558)	(344,617)	-	(5,056,175)
Machinery and equipment	(182,324)	(4,074)	-	(186,398)
Total accumulated depreciation	(4,943,977)	(350,531)	-	(5,294,508)
Total capital assets, being depreciated, net	3,503,198	(350,531)	-	3,152,667
Business-type activities capital assets, net	$ 3,796,935	$ (350,531)	$ -	$ 3,446,404

Depreciation expense was charged as follows:

Governmental activities:	
General government	36,322
Public safety	77,978
Public works	400,678
Public health	9,374
Social and economic	8,892
Culture and recreation	107,176
Total depreciation-governmental activities	$ 640,420
Business-type activities:	
Airport	$ 350,531

Interfund Receivables, Payables and Transfers

The composition of interfund balances (due from/to other funds) as of June 30, 2014, consisted of the Roundhouse Road fund owing the USG Loan fund $60,533. $1,277 is expected to be repaid next fiscal year.

Interfund transfers consisted of the following

	Transfers In	Transfers Out	Total
Governmental funds:			
General	$ 342,800	$ (22,405)	$ 320,395
Road	81,512	-	81,512
Weed	13,162	-	13,162
Nonmajor governmental funds	123,414	(538,483)	(415,069)
	$ 560,888	$ (560,888)	$ -

Transfers are made to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Long-Term Debt

Notes payable are as follows:

	Original Amount	Term	Interest Rate	Payment	Governmental Activities	Business-type Activities
Airport-2013	$ 24,000	10 yrs	1.63%	Annual	$ -	$ 19,200
Airport-2013	89,902	10 yrs	1.00%	Semi-annual	-	72,288
Airport-2011	140,000	10 yrs	1.63%	Annual	-	84,000
Road and bridge-2012 (1)	615,454	15 yrs	1.00%	Semi-annual	537,749	-
Sheriff vehicle-2013	33,705	4 yrs	3.79%	Semi-annual	21,611	-
Sheriff vehicle-2012	32,492	4 yrs	3.79%	Semi-annual	12,591	-
Sheriff vehicle-2012	32,492	4 yrs	3.79%	Semi-annual	12,554	-
					$ 584,505	$ 175,488

(1) Through Montana Board of Investments, with interest adjusted each February, up to 15%.

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

	Governmental Activities			Business-type Activities		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2015	$ 63,404	$ 6,818	$ 70,222	$ 25,456	$ 2,377	$ 27,833
2016	56,410	5,477	61,887	25,629	2,020	27,649
2017	44,400	4,599	48,999	25,806	1,662	27,468
2018	40,697	4,101	44,798	25,987	1,299	27,286
2019	41,494	3,692	45,186	26,171	937	27,108
2019-2024	219,990	12,047	232,037	46,439	842	47,281
2025-2027	118,111	1,782	119,893	-	-	-
	$ 584,506	$ 38,516	$ 623,022	$ 175,488	$ 9,137	$ 184,625

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	$ 646,251	$ -	$ (61,745)	$ 584,506	$ 63,404
Compensated absences	420,014	16,164	-	436,178	43,618
Governmental activity long-term liabilities	$ 1,066,265	$ 16,164	$ (61,745)	$ 1,020,684	$ 107,022

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Business-type activities:					
Notes payable	$ 417,601	$ -	$ (242,113)	$ 175,488	$ 25,456
Compensated absences	17,749	-	(81)	17,668	1,767
Business-type activity long-term liabilities	$ 435,350	$ -	$ (242,194)	$ 193,156	$ 27,223

For the governmental activities, notes payable are liquidated within the Road fund and with resources accumulated in the Fair CIP Voted Levy fund. Capital leases are liquidated within the Road fund. Compensated absences are paid from the fund in which the employee is paid.

Conduit Debt

To provide for the construction/remodeling to the Central Montana Medical Facilities (CMMF), the County issued revenue hospital notes ($4.5 million) in May of 2014. These notes are a special limited obligation of the County payable solely from separate loan agreements with CMMF. The notes do not constitute a debt or pledge of the full faith and credit of the County or the State, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2014, the amount of the 2014 revenue hospital notes outstanding was $4,493,733.

NOTE 4. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in 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.

Self-Insurance Plan

During the year ended June 30, 2014, employees of the government were covered by a medical self-insurance plan (the "plan"). The government contributed approximately $671 per month for the first 6 months of the year and $1,207 for the second 6 months of the year per employee to the plan and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the government.

The administrative contract between the government and the third party administrator is renewable annually and administrative fees and stop-loss premiums are included in the contractual provisions. The government was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage through Montana Joint Powers Trust (MJPT). Stop-loss coverage was in effect for individual claims exceeding $35,000 and for aggregate loss, which is based on a factor determined by MJPT. The aggregate stop-loss coverage was $1,076,064.

The costs associated with the medical self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues in the internal service fund and as operating expenditures of the governmental and enterprise funds. The liability of the medical self-insurance plan includes incurred but not reported claims. The liability as of June 30, 2014, is based on the requirements of Governmental Accounting Standards Board, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Changes in the claims liability amount during the year 2014 and 2013 are as follows:

	Liability July 1,	Curent Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2013-14	$ 203,532	$ 689,389	$ (617,900)	$ 275,021
2012-13	151,252	980,971	(928,691)	203,532

Subsequent Events

In November 2014, the County issue $2,293,318 in bonds to provide financing for water and sewer improvement at the fairgrounds. The bonds have an interest rate of three percent and are payable over 20 years.

Contingencies

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.

Interlocal Agreements

The City of Lewistown and Fergus County entered into an agreement to fund a library for City and County residents. Fergus County levied 1.4 mills in 2014 for library purposes and contributed $50,629 for the year ended June 30, 2014. The City maintains the library accounting records and includes the financial activities of the library in its financial statements.

The City-County Airport is owned and operated jointly by the City of Lewistown and Fergus County. The operation of the airport is accounted for by the County as an enterprise fund. All capital assets are recorded within the County's accounting records. The airport is administered by a five-member board, consisting of the City's manager, a City-appointed member, one County commissioner, a County-appointed member and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airports normal operations.

The City of Lewistown and Fergus County entered into an agreement whereby the County provides a justice of the peace who acts as City judge for the City. The City contributes forty-five percent of fines and assessments collected or $25,000, whichever is greater. The County maintains the accounting records and remits a monthly accounting to the City.

Jointly Governed

Central Montana Health District Number 6 (CMHD)
The CMHD, which was formed September 1987, was created under the provisions of Montana Code Annotated. The District was formed to provide for the salaries of sanitarians. District members make contributions to Fergus County (responsible for record keeping and reporting), based on population.

South Central Montana Regional Mental Health Center
The Fergus County Mental Health Center is a satellite office of the South Central Montana Regional Mental Health Center located in Billings, Montana. The County belongs to Region No. 3 which consists of eleven counties. The District was created under the provisions of Montana Code Annotated (MCA). Each County is represented on the Board by one of its county commissioners. Fergus County contributed $19,051 during fiscal year 2014. The purpose of the Center is to initiate preventive mental health activities for statewide mental health programs and to perform other duties as listed in MCA.

Fergus County Council on Aging
The Fergus County Council on Aging is a satellite office of the Area II Agency on Aging (Area II). Eleven counties belong to Area II. Fergus County contributes money to Area II each fiscal year for the purpose of matching federal grants that Area II obtains. During the year ended June 30, 2014 the County contributed $27,689 for matching purposes.

Retirement Plans

The government participates in three 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 Teachers' Retirement System (TRS) covers the county superintendent. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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

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

	Employer	Employee	Total
SRS	10.115%	9.245%	19.360%
TRS:			
Tier 1 member	8.470%	8.150%	16.620%
Tier 2 member	8.470%	8.150%	16.620%
PERS	8.070%	7.900%	15.970%

TRS:
A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

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% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana contribution has not been recorded in the financial statements.

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

	2014	2013	2012
SRS	$ 114,822	$ 110,732	$ 108,716
TRS	7,054	6,073	5,858
PERS	435,512	349,093	346,286
	$ 557,388	$ 465,898	$ 460,860

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

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

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes and assessments	$ 1,896,840	$ 1,896,840	$ 1,907,231
Fines and forfeitures	88,000	88,000	91,958
Licenses and permits	750	750	800
Intergovernmental	510,116	510,116	518,756
Charges for services	409,428	409,428	463,226
Investment earnings	25,000	25,000	21,983
Miscellaneous	-	4,000	11,911
Total revenues	2,930,134	2,934,134	3,015,865
EXPENDITURES			
Current:			
General government	1,758,991	1,762,991	1,668,683
Public safety	1,723,948	1,723,948	1,637,746
Public health	263,553	263,553	258,977
Social and economic services	8,500	8,500	6,270
Debt service:			
Principal	-	-	24,088
Interest and other charges	3,000	3,000	2,459
Capital outlay	104,750	104,750	-
Total expenditures	3,862,742	3,866,742	3,598,223
Excess (deficiency) of revenues over expenditures	(932,608)	(932,608)	(582,358)
OTHER FINANCING SOURCES (USES)			
Transfers in	666,249	666,249	342,800
Transfers out	(22,405)	(22,405)	(22,405)
Total other financing sources (uses)	643,844	643,844	320,395
Net change in fund balance	$ (288,764)	$ (288,764)	(261,963)
Fund balance - beginning			1,008,667
Fund balance - ending			$ 746,704

See notes to required supplementary information.

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

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes and assessments	$ 510,069	$ 510,069	$ 500,875
Intergovernmental	1,513,756	1,513,756	1,355,059
Charges for services	85,000	85,000	133,202
Investment earnings	-	-	11
Miscellaneous	68,000	68,000	68,440
Total revenues	2,176,825	2,176,825	2,057,587
EXPENDITURES			
Current:			
Public works	1,575,845	1,575,845	1,649,365
Debt service:			
Principal	37,657	37,657	37,657
Interest and other charges	5,660	5,660	5,659
Capital outlay	256,366	256,366	401,434
Total expenditures	1,875,528	1,875,528	2,094,115
Excess (deficiency) of revenues over expenditures	301,297	301,297	(36,528)
OTHER FINANCING SOURCES (USES)			
Transfers in	150,904	150,904	81,512
Transfers out	(499,000)	(499,000)	-
Total other financing sources (uses)	(348,096)	(348,096)	81,512
Net change in fund balance	$ (46,799)	$ (46,799)	44,984
Fund balance - beginning			644,972
Fund balance - ending			$ 689,956

See notes to required supplementary information.

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

	Budgeted Amounts		
	Original	Final	Actual Amounts
REVENUES			
Taxes and assessments	$ 51,632	$ 51,632	$ 50,890
Intergovernmental	50,882	50,882	33,635
Charges for services	179,500	179,500	209,060
Investment earnings	-	-	1
Miscellaneous	8,000	8,000	-
Total revenues	290,014	290,014	293,586
EXPENDITURES			
Current:			
Public works	372,026	372,026	347,203
Capital outlay	28,000	28,000	28,000
Total expenditures	400,026	400,026	375,203
Excess (deficiency) of revenues over expenditures	(110,012)	(110,012)	(81,617)
OTHER FINANCING SOURCES			
Transfers in	32,346	32,346	13,162
Total other financing sources	32,346	32,346	13,162
Net change in fund balance	$ (77,666)	$ (77,666)	(68,455)
Fund balance - beginning			179,194
Fund balance - ending			$ 110,739

See notes to required supplementary information.

FERGUS 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 Amounts
	Original	Final	
REVENUES			
Intergovernmental	$ -	$ -	$ 380,151
Investment earnings	-	-	6,330
Total revenues	-	-	386,481
EXPENDITURES:			
Current:			
General government	1,365,320	1,365,320	24,831
Capital outlay	-	-	75,000
Total expenditures	1,365,320	1,365,320	99,831
Net change in fund balance	$ (1,365,320)	$ (1,365,320)	286,650
Fund balance - beginning			1,365,320
Fund balance - ending			$ 1,651,970

See notes to required supplementary information.

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.

For the year ended June 30, 2014, expenditures exceeded appropriations in the Fair ($18,857), Health District ($5,793), Mental Health ($1,797), Fire Council ($1,400). Gas Tax ($21,150) and Airport CIP ($158,601) funds.

OTHER SUPPLEMENTARY INFORMATION

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

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2014
U.S. Department of Transportation:								
Direct Program:								
Airport Improvement Program	20.106	DOT-FA12NM-2017	$ 107,898	$ -	$ 26,284	$ 26,284	$ -	$ -
Airport Improvement Program	20.106	DOT-FA13NM-2049	375,995	-	155,588	203,700	-	(48,112)
Subtotal				-	181,872	229,984	-	(48,112)
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	STPE (14)40	166,462	-	10,753	13,018	-	(2,265)
Subtotal				-	10,753	13,018	-	(2,265)
Passed through the Montana Sheriffs and Peace Officers Association:								
State and Community Highway Safety	20.600	N/A	3,000	(834)	1,212	378	-	-
Subtotal				(834)	1,212	378	-	-
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Interagency Public Sector Hazardous Materials Training and Planning Grants	20.703	HM-HMP-0336-13-01-00	24,912	-	-	20,138	-	(20,138)
Subtotal				-	-	20,138	-	(20,138)
Total U.S. Department of Transportation				(834)	193,837	263,518	-	(70,515)
U.S. Department of Justice:								
Passed through the City of Billings, Montana:								
Missing Children's Assistance	16.543	2013-MC-FX-K025	3,000	-	425	425	-	-
Subtotal				-	425	425	-	-
Passed through the Montana Board of Crime Control:								
Crime Victim Assistance	18.575	13-V01-91476	29,638	-	26,438	29,636	-	(3,198)
Crime Victim Assistance	16.575	12-V01-91194	29,330	(2,777)	2,777	-	-	-
Subtotal				(2,777)	29,215	29,636	-	(3,198)
Edward Byrne Memorial Justice Assistance Grant Program	16.738	11-G06-91599	7,287	-	7,287	7,287	-	-
Subtotal				-	7,287	7,287	-	-
Total U.S. Department of Justice				(2,777)	36,927	37,348	-	(3,198)
U.S. Department of Homeland Security:								
Direct Program:								
Pre-Disaster Mitigation	97.047	DR-1996-P-71-F	70,000	-	-	41,115	-	(41,115)
Subtotal				-	-	41,115	-	(41,115)
Passed through the Montana Department of Military Affairs-Disaster & Emergency Services Division:								
Emergency Management Performance Grants	97.042	EMW-2013-EP-00044-S0	32,100	-	2,743	8,940	-	(6,197)
Subtotal				-	2,743	8,940	-	(6,197)
Disaster Grants-Public Assistance	97.036	FEMA-DR-4127-MT	381,879	-	381,879	381,879	-	-
Disaster Grants-Public Assistance	97.036	FEMA-1996-DR-MT	4,314,756	(1,031,515)	1,031,859	257,634	-	(257,290)
Subtotal				(1,031,515)	1,413,738	639,513	-	(257,290)
Total U.S. Department of Homeland Security				(1,031,515)	1,416,481	689,568	-	(304,602)
U.S. Department of Health and Human Services:								
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services Block Grant to the States	93.994	14-07-5-01-057-0	5,765	-	4,612	5,765	-	(1,153)
Maternal and Child Health Services Block Grant to the States	93.994	14-07-5-01-035-0	1,500	-	1,200	1,500	-	(300)
Maternal and Child Health Services Block Grant to the States	93.994	13-07-5-11-009-0	427	-	427	427	-	-

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

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2013	Receipts	Expenditures	Returned to Grantor/ Other	Balance June 30, 2014
Maternal and Child Health Services Block Grant to the States	93.994	14-07-5-01-014-0	11,873	-	9,498	11,873	-	(2,375)
Maternal and Child Health Services Block Grant to the States	93.994	13-07-5-01-014-0	11,533	(2,883)	2,883	-	-	-
Subtotal				(2,883)	18,620	19,565	-	(3,828)
Passed through the Montana Department of Public Health and Human Services:								
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-092-0	15,000	(3,750)	3,750	-	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	14-07-3-01-003-0	52,240	-	35,330	50,295	-	(14,965)
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	13-07-3-01-003-0	55,893	(10,610)	16,263	5,653	-	-
Subtotal				(14,360)	55,343	55,948	-	(14,985)
Immunization Grants	93.268	13-07-4-31-108-0	7,337	-	3,668	3,668	-	-
Immunization Grants	93.268	14-07-4-31-108-0	7,337		1,834	3,225	-	(1,391)
Immunization Grants	93.268	14-07-4-31-114-0	5,705	-	1,426	1,600	174	-
Immunization Grants	93.268	13-07-4-31-114-0	5,705	-	2,853	2,853	-	-
Subtotal				-	9,781	11,346	174	(1,391)
Public Health Emergency Preparedness	93.069	14-07-6-11-010-0	133,556	-	100,474	122,293	21,819	-
Public Health Emergency Preparedness	93.089	13-07-6-11-010-0	153,740	(34,593)	34,593	-	-	-
Subtotal				(34,593)	135,067	122,293	21,819	-
Family Planning Services	93.217	13-07-5-11-009-0	30,424	(784)	784	-	-	-
Family Planning Services	93.217	13-07-5-11-009-0	25,422	-	25,422	25,422	-	-
Subtotal				(764)	26,206	25,422	-	-
Preventive Health and Health Services Block Grant	93.991	14-07-3-01-003-0	2,000	-	-	-	-	-
Subtotal				-	-	-	-	-
Total U.S. Department of Health and Human Services				(52,620)	245,017	234,574	21,993	(20,184)
U.S. Department of the Interior:								
Direct Program:								
Bankhead Jones Farm Tenant Act	15.999	N/A	13,195	(13,579)	26,774	13,195	-	-
Total U.S. Department of the Interior				(13,579)	26,774	13,195	-	-
U.S. Department of Agriculture:								
Passed through the Montana Department of Agriculture:								
Cooperative Forestry Assistance	10.664	MDA 2010-705	40,000	-	-	-	-	-
Passed through the Montana Department of Natural Resources and Conservation:								
Cooperative Forestry Assistance	10.664	VFA-14-140	7,000	-	7,000	7,000	-	-
Subtotal				-	7,000	7,000	-	-
Passed through Montana Department of Administration:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	54,924	-	54,924	54,924	-	-
Subtotal				-	54,924	54,924	-	-
Total U.S. Department of Agriculture				-	61,924	61,924	-	-
Total Federal Awards				$ (1,101,325)	$ 1,980,960	$ 1,300,127	$ 21,993	$ (398,499)

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.

2013-12. ALL MAJOR FEDERAL 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.

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.

2013-13. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

Criteria: For category C (non-emergent) projects, grant terms and conditions require the county to follow its internal procurement guidelines and state procurement laws when purchasing goods and/or contracting for services. Per Section 7-5-2301, MCA, a contract for the purchase of any vehicle, road machinery or other machinery, apparatus, appliances, equipment, or materials or supplies or for construction, repair, or maintenance in excess of $50,000 ($80,000 effective March 2013) may not be entered into by a County governing body without first publishing a notice calling for bids.

Condition: The County purchased culverts and contracted for other FEMA project repairs where the total purchase was in excess of statutory bid limits. The County did not formally bid these purchases in accordance with Section 7-5-2301, MCA.

Questioned Costs: None

Cause: Unknown

Effect: Non-compliance with program terms and conditions and state law.

Recommendation: In future category C (non-emergent) projects, the auditors recommended the County follow its own procurement guidelines and state procurement laws when contracting for goods and services.

Current Status: This finding was implemented.

Criteria: Per OMB Circular A-87, *COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS*, to be allowable under Federal awards, costs must meet certain general criteria (A-87, Attachment A, paragraph C.1). One of the

general criteria is that all items claimed as a cost must be adequately documented.

Condition: The auditors selected 12 (10 being large projects and 2 being small projects) of the 395 completed FEMA approved Project Worksheets (PW's) for review, which constitutes approximately 3 percent of the total completed project worksheets and 90 percent of the total completed program dollars. For the two small projects PW's reviewed, the FEMA recommended forms or equivalent worksheets and supporting documentation required to be included in the project files were either not present and/or were not complete.

Questioned Costs: $107,507

Cause: Unknown.

Effect: Non-compliance with program terms and conditions.

Recommendation: The FEMA recommended forms or equivalent worksheets should be fully completed and supported by employee timesheets, vendor/contractor invoices and other adequate documentation for all PW's.

Current Status: This finding was implemented.

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 were not separately identified in the general ledger for the PW's and specific PW's were not always separately identified on employee day sheets. Additionally, because expenditures were not separately identified in the general ledger, we could determine if the federal and state disaster grant funds were recorded in the correct fund.

Questioned Costs: $1,527,546

Cause: Unknown.

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

Recommendation: Grant program expenditures should be separately identified in the general ledger. By separately identifying expenditures in the general ledger, revenue can also be recorded correctly in each fund. Additionally, employee time should be separately identified on employee day sheets.

Current Status: This findings are repeated in the schedule of findings and questioned costs.

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

To the Board of County Commissioners
Fergus County
Lewistown, 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 Fergus 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 March 13, 2015. The report on the governmental activities, the road fund, the weed fund and aggregate remaining fund information was qualified because we did observe year-end inventories and because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Also, the report on the road fund and aggregate remaining fund information was qualified because of inadequacies in the government's accounting records related to the classification of federal and state emergency disaster revenue (intergovernmental) between funds. Further, the report on governmental activities, the business-type activities, the airport fund (a major enterprise fund) and aggregate remaining fund information 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 2014-006)

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 2014-007 through 2014-009)

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 2014-009 and 2014-010.

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

The Government's Response to Findings

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

Purpose of this Report

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

Olness & Associates, PC

Billings, Montana
March 13, 2015

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

To the Board of County Commissioners
Fergus County
Lewistown, Montana

Report on Compliance for Each Major Federal Program

We have audited Fergus 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 Opinion on the Disaster Grants Public Assistance

As described in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding allowable costs/cost principles for its Disaster Grants-Public Assistance, CFDA No. 97.036 as described in finding 2014-12. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

Qualified Opinion on the Disaster Grants Public Assistance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion 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 the Disaster Grants-Public Assistance for the year ended June 30, 2014.

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

Unmodified Opinion on the Other Major Federal Program

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

Other Matters

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

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 2014-011 and 2014-012 to be material weaknesses.

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

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

Olness & Associates, PC

Billings, Montana
March 13, 2015

FERGUS 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 Disaster Grants - Public Assistance
- Unqualified for Schools and Roads-Grants to States

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:

CFDA Numbers	*Name of Federal Program or Cluster*
97.036	Disaster Grants - Public Assistance
10.665	Schools and Roads-Grants to States

Dollar threshold used to distinguish between type A and type B programs?	$300,000	
Auditee qualified as low-risk auditee?	____ yes	√ no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

Effect: It is common within the governmental sector to rely 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.

2014-002. 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.

2014-003. SEGREGATION OF DUTIES

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

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

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

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

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

2014-004. 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.

2014-005. COUNTY FAIR

Criteria: Effective internal control requires adopting and adhering to formal accounting policies and procedures for the overall operation of the fair and fairgrounds.

Condition: The fairgrounds department is in the process of developing formal accounting policies and procedures for the

overall operation of the fair and fairgrounds. However, these procedures have not been completed and fully implemented.

Cause: Unknown.

Effect: Internal controls are weakened.

Recommendation: We recommend fair administration complete the process of reviewing and updating its accounting policies and procedures for the overall operation of the fair, with special emphasis on control and accountability over cash collections.

2014-006. TAX ABATEMENTS/CORRECTIONS

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

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

Cause: Unknown.

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

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

2014-007. RECONCILE PAYROLL CLEARING FUND

Criteria: Reconciling the liability accounts in the payroll clearing fund with the amounts actually paid would strengthen internal controls and ensure the accuracy of amounts recorded in the general ledger.

Condition: The liability accounts in the payroll clearing fund were not reconciled.

Cause: Unknown.

Effect: Inaccurate financial information.

Recommendation: The liability accounts in the payroll clearing fund should be reconciled at the end of each month.

2014-008. RECONCILE WARRANTS PAYABLE

Criteria: Reconciling warrants payable in the payroll and claims clearing funds would strengthen internal controls and ensure the accuracy of amounts recorded in the general ledger.

Condition: Warrants payable in the payroll and claims clearing funds were not reconciled at the end of each month.

Cause: Unknown.

Effect: Inaccurate financial information.

Recommendation: Warrants payable in the payroll and claims clearing funds should be reconciled at the end of each month. Documentation should be retained for future reference.

2014-009. EXPENDITURES LIMITED TO APPROPRIATIONS

Criteria: Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund. (MCA 7-6-4005)

Condition: For the year ended June 30, 2014, expenditures exceeded appropriations in the Fair ($18,857), Health District ($5,793), Mental Health ($1,797), Fire Council ($1,400), Gas Tax ($21,150) and Airport CIP ($158,601) funds.

Cause: Unknown.

Effect: Noncompliance with state law.

Recommendation: We believe that the actual results should be compared to the budgeted amounts monthly. If necessary, budget amendments should be approved and posted to the accounting records.

2014-010. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT AND FEMA-DR-4127-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: We selected 6 projects out of the 23 completed FEMA approved Project Worksheets (PW's) for review, which constitutes approximately 26 percent of the total completed project worksheets and 75 percent of the total completed program dollars. Program expenditures were not separately identified in the general ledger for the PW's and specific PW's were not separately identified on employee day sheets. Additionally, because expenditures were not separately identified in the general ledger, we could determine if the federal and state disaster grant funds were recorded in the correct fund.

Questioned Costs: $190,892

Cause: Unknown.

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

Recommendation: Grant program expenditures should be separately identified in the general ledger. By separately identifying expenditures in the general ledger, revenue can also be recorded correctly in each fund. Additionally, employee time should be separately identified on employee day sheets.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-011. ALL MAJOR FEDERAL PROGRAMS

Findings 2014-001 and 2014-003 apply to these federal award programs.

U.S. DEPARTMENT OF HOMELAND SECURITY:

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

Finding 2014-010 applies to this federal award program.

FERGUS COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINANCIAL STATEMENT FINDINGS	STATUS
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-4. JUSTICE OF THE PEACE TIME PAY ACCOUNTING	NOT IMPLEMENTED
2013-5. COUNTY FAIR	PARTIALLY IMPLEMENTED
2013-6. RECONCILE PAYROLL CLEARING FUND	NOT IMPLEMENTED
2013-7. RECONCILE WARRANTS PAYABLE	NOT IMPLEMENTED
2013-8. STATE PREVAILING WAGE RATES	IMPLEMENTED
2013-9. COMPETITIVE BIDDING-SHERIFF	IMPLEMENTED
2013-10. COMPETITIVE BIDDING-ROAD	IMPLEMENTED
2013-11. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT	PARTIALLY IMPLEMENTED