

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

**AUDIT REPORT**

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

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2013

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SANDERS COUNTY, MONTANA

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SANDERS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2013

**BOARD OF COUNTY COMMISSIONERS**

Anthony Cox  
Carol Brooker  
Glen Magera

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Robert Zimmerman  
Carol Turk  
Jennine Robbins  
Diane Rummel  
Donald Strine  
Thomas Rummel

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

## MANAGEMENT DISCUSSION & ANALYSIS

Our discussion and analysis of Sanders County's financial performance provides an overview of Fiscal Year 2012-2013 activities. The intent of this discussion and analysis is to look at the County's financial performance as a whole, readers should review the basic financial statements found in the annual report to enhance their understanding of the County's financial performance.

### FINANCIAL HIGHLIGHTS

- ❖ The County's taxable value decreased as the Taxable Market Value decreased and the Exemption Rate increased. The County's mill levy for Fiscal Year 2012-2013 residences valued at \$100,000 and \$200,000 would be assessed approximately \$1.38 and \$2.54 respectively, in additional property taxes in each tax year. Insufficient operating reserves for county services due to increased labor, material and operating costs are out pacing mill levy revenue increases and outside funding sources, such as grants. There was an increase in grant applications this year. Grants are a large financial factor in providing services within the County and competition for those grants that are available is steadily increasing.
- ❖ Pilt payments were fully funded this FY. There is uncertainty whether Secure Rural Schools money will be available in the future. This funding ended in FY2012 and is now considered on a year-to-year basis.
- ❖ The County received a substantial amount of revenue through numerous grants. Grants included WIC, MCH, Tobacco, Rush Skeleton Weed, we are expecting Eurasian Milfoil Grants to extend into future years, and U.S. Department of Justice Programs on Violence Against Women Grants. There was an increase in grant applications this year by several of the County departments. Grants are a large financial factor in providing services within the County, and competition for those grants that are available is steadily increasing.

### USING THIS ANNUAL FINANCIAL REPORT

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

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

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

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

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

## Fund Financial Statements

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

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

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

**Sanders County, Montana**  
**MD & A Comparisons**  
**June 30, 2013**

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	FY13	FY12	Change	FY13	FY12	Change
			Inc (Dec)			Inc (Dec)
Current and other assets	\$ 6,915,904	\$ 6,819,520	\$ 96,384	\$ 604,770	\$ 548,626	\$ 56,144
Capital assets	11,458,193	11,685,919	(227,726)	584,616	580,757	3,859
Total assets	\$ 18,374,097	\$ 18,505,439	\$ (131,342)	\$ 1,189,386	\$ 1,129,383	\$ 60,003
Long-term debt outstanding	\$ 1,127,066	\$ 1,034,075	\$ 92,991	\$ 110,185	\$ 71,020	\$ 39,165
Other liabilities	40,208	179,976	(139,768)	235	12,840	(12,605)
Total liabilities	\$ 1,167,274	\$ 1,214,051	\$ (46,777)	\$ 110,420	\$ 83,860	\$ 26,560
Invested in capital assets, net of debt	\$ 11,246,703	\$ 11,467,249	\$ (220,546)	\$ 580,756	\$ 580,757	\$ (1)
Restricted	3,690,613	3,272,619	417,994	-	-	-
Unrestricted (deficit)	2,269,507	2,551,520	(282,013)	498,210	464,766	33,444
Total net position	\$ 17,206,823	\$ 17,291,388	\$ (84,565)	\$ 1,078,966	\$ 1,045,523	\$ 33,443

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	FY13	FY12	Change	FY13	FY12	Change
			Inc (Dec)			Inc (Dec)
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 14,122	\$ 13,293	\$ 829	\$ 126,994	\$ 147,752	\$ (20,758)
Operating grants and contributions	2,868,544	2,878,913	(10,369)	-	-	-
Capital grants and contributions	139,826	271,709	(131,883)	-	-	-
<i>General revenues (by major source):</i>						
Property taxes for general purposes	3,789,442	3,841,378	(51,936)	728,669	735,981	(7,312)
Liquor tax apportionment	4,550	4,250	300	-	-	-
Miscellaneous	476,382	424,229	52,153	3,350	4,303	(953)
Interest/investment earnings	28,718	50,169	(21,451)	1,566	1,624	(58)
Bureau of Indian Affairs	-	-	-	-	-	-
PILT	303,664	310,821	(7,157)	-	-	-
State entitlement	902,688	894,669	8,019	-	-	-
Grants and entitlements not restricted to specific programs	88,458	83,749	4,709	-	-	-
Licenses and Permits	19,921	12,085	7,836	-	-	-
Contributions & donations	10,864	13,778	(2,914)	-	-	-
Local Option Tax	331,970	331,659	311	-	-	-
Fire	12,000	5,500	6,500	-	-	-
Total revenues	\$ 8,991,149	\$ 9,136,202	\$ (145,053)	\$ 860,579	\$ 889,660	\$ (29,081)
<b>Program expenses</b>						
General government	\$ 2,150,361	\$ 2,316,141	\$ (165,780)			
Public safety	2,084,177	2,150,973	(66,796)			
Public works	3,223,416	3,043,204	180,212			
Public health	363,930	261,348	102,582			
Social and economic services	396,474	354,465	42,009			
Culture and recreation	449,260	410,805	38,455			
Housing and community development	23,319	130,214	(106,895)			
Debt service - interest	3,549	4,642	(1,093)			
Miscellaneous	227,353	215,232	12,121			
Solid Waste				\$ 827,136	\$ 794,139	\$ 32,997
Total expenses	\$ 8,921,839	\$ 8,887,024	\$ 34,815	\$ 827,136	\$ 794,139	\$ 32,997
<b>Increase (decrease) in net position</b>	\$ 69,310	\$ 249,178	\$ (179,868)	\$ 33,443	\$ 95,521	\$ (62,078)

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

## GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$8,921,839 as found in the Statement of Activities. Shown on the same statement, expenses for these activities were financed through taxes, charges for services which are costs being paid by those who directly benefited from these services and/or programs or by other governments and organizations that subsidized certain programs with operating grants, other revenues such as interest earnings, entitlement reimbursements, general contributions and other miscellaneous revenues along with remaining cash carryovers from the prior fiscal year.

<b>Unreserved Fund Balance Analysis</b>	<u>General</u>	<u>Road</u>	<u>Law Enforcement</u>
Unreserved Fund Balance – Prior Year	\$ 3,087,004	\$ 789,473	\$ 305,121
Unreserved Fund Balance – Current Year	3,107,682	976,206	357,206
Change in unreserved fund balance	(20,678)	(186,733)	(52,085)
% change in unreserved fund balance	1%	24%	17%

## BUSINESS TYPE ACTIVITIES

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

### Unrestricted Net Position:

	<u>Solid Waste</u>
Current Year	\$ 498,210
Prior Year	\$ 464,766
Change in unreserved retained earnings	\$ 33,444
% change in unreserved retained earnings	7%

## CAPITAL ASSETS AND LONG-TERM DEBT

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

## **Long Term Debt**

In FY 2013 Sanders County reduced its Intercap Loan debt by \$26,684.30. These funds were used for building improvements and the Sanders County Fairgrounds. The County also added a new loan of \$24,018 for a utility tractor and reduced this debt during the year by \$4,514. Compensated absences balance has decreased to a total of \$371,073. Our OPEB Governmental liability increased by \$113,777 for a balance of \$581,555 and the Solid Waste OPEB liability increased by \$37,925 for a balance of \$73,133.

## **Capital Assets**

In FY13, Sanders County's governmental fixed assets had a net change of \$227,726 including depreciation of \$792,114. During the year there were some new governmental equipment purchases and some equipment was replaced and sold. The net change for governmental depreciable capital asset additions and retirements was \$484,821 governmental land assets increased by \$9,567 due to gravel pit reclamation. The solid waste fund had an increase of \$78,936 in machinery and equipment and depreciation of \$75,077 with a net change of \$3,859.

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

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

Situations having a negative impact primarily on revenue, tax receipts, associated losses and services within Sanders County that come to mind are: 1) fluctuating utility prices, and 2) the rising costs of liability, health and workman compensation insurance premiums.

At the time of this analysis, economic indicators have declined somewhat in Sanders County. The Board of Commissioners recognize that the indicators affecting Sanders County's economy can be attributed to: 1) newly taxable property, in the amount of \$1,135,813 from new construction throughout the county is down \$860,708 from the previous year, 2) unemployment rates in FY 11-12 have fluctuated to an approximate level of 14%; 3) alternative schools & mining of building stones have both stabilized, although they are down from past years; 4) tourism is a continuing part of our economy, providing the potential for increased sales to local business, the Bike Rally was very successful again this year, and the boat races, snowmobile and ATV activities have increased; 5) various businesses opened and closed this FY. This information is difficult to track due to no county-wide permit system. Information will be available through the Department of Revenue as business owners file their taxes.

Capital expenditures for the coming fiscal year 2013-2014 include the award winning High Bridge Project; Airport improvements projects; 911-communication equipment; & the CTEP Triangle Park project completion in Plains. We will also be working on the CTEP funded Road to the Buffalo. These capital expenditures will be funded by general or program revenues, grant funds, appropriations, and contributions.

Overall, we, the Board of Sanders County Commissioners feel positive about the County's finances and overall economy. It is our goal to maintain and provide the services needed to the residents of Sanders County. We feel that by striving for a stable economy and reliable revenues, we will be able to effectively provide for our citizen's needs, now and in the future. We are continuing to work on funding projects in our county that we feel will benefit our citizens, while being fiscally responsible.

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 7, 40 through 44, and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the Sanders County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanders County, Montana's internal control over financial reporting and compliance.

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

March 20, 2014

**Sanders County, Montana**  
**Statement of Net Position**  
**June 30, 2013**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 6,468,449	\$ 419,912	\$ 6,888,361
Taxes and assessments receivable, net	214,464	184,858	399,322
Due from other governments	135,016	-	135,016
Inventories	97,975	-	97,975
Total current assets	<u>\$ 6,915,904</u>	<u>\$ 604,770</u>	<u>\$ 7,520,674</u>
Noncurrent assets			
Capital assets - land	\$ 1,845,432	\$ 54,440	\$ 1,899,872
Capital assets - construction in progress	225,400	-	225,400
Capital assets - depreciable, net	9,387,361	530,176	9,917,537
Total noncurrent assets	<u>\$ 11,458,193</u>	<u>\$ 584,616</u>	<u>\$ 12,042,809</u>
Total assets	<u>\$ 18,374,097</u>	<u>\$ 1,189,386</u>	<u>\$ 19,563,483</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 790	\$ -	\$ 790
Accounts payable	12,330	235	12,565
Due to other governments	27,088	-	27,088
Current portion of long-term capital liabilities	33,460	-	33,460
Current portion of compensated absences payable	229,288	24,590	253,878
Total current liabilities	<u>\$ 302,956</u>	<u>\$ 24,825</u>	<u>\$ 327,781</u>
Noncurrent liabilities			
Noncurrent portion of long-term liabilities	\$ 581,555	\$ 73,133	\$ 654,688
Noncurrent portion of long-term capital liabilities	178,030	-	178,030
Noncurrent portion of compensated absences	104,733	12,462	117,195
Total noncurrent liabilities	<u>\$ 864,318</u>	<u>\$ 85,595</u>	<u>\$ 949,913</u>
Total liabilities	<u>\$ 1,167,274</u>	<u>\$ 110,420</u>	<u>\$ 1,277,694</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	\$ 11,246,703	\$ 584,616	\$ 11,831,319
Restricted for capital projects	98,939	-	98,939
Restricted for special projects	3,591,674	-	3,591,674
Unrestricted	2,269,507	494,350	2,763,857
Total net position	<u>\$ 17,206,823</u>	<u>\$ 1,078,966</u>	<u>\$ 18,285,789</u>
Total liabilities and net position	<u>\$ 18,374,097</u>	<u>\$ 1,189,386</u>	<u>\$ 19,563,483</u>

See accompanying Notes to the Financial Statements

Sanders County, Montana  
Statement of Activities  
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,150,361	\$ 13,972	\$ 328,688	\$ -	\$ (1,807,701)	\$ -	\$ (1,807,701)
Public safety	2,084,177	-	621,945	-	(1,462,232)	-	(1,462,232)
Public works	3,223,416	-	1,559,608	17,802	(1,646,006)	-	(1,646,006)
Public health	363,930	-	188,341	-	(175,589)	-	(175,589)
Social and economic services	396,474	-	5,441	-	(391,033)	-	(391,033)
Culture and recreation	449,260	150	125,095	18,450	(305,565)	-	(305,565)
Housing and community development	23,319	-	-	103,574	80,255	-	80,255
Debt service - interest	3,549	-	-	-	(3,549)	-	(3,549)
Miscellaneous	227,353	-	-	-	(227,353)	-	(227,353)
Total governmental activities	\$ 8,921,839	\$ 14,122	\$ 2,829,118	\$ 139,826	\$ (5,938,773)	\$ -	\$ (5,938,773)
Business-type activities:							
Solid Waste	\$ 827,136	\$ 126,994	\$ -	\$ -	\$ -	\$ (700,142)	\$ (700,142)
Total business-type activities	\$ 827,136	\$ 126,994	\$ -	\$ -	\$ -	\$ (700,142)	\$ (700,142)
Total primary government	\$ 9,748,975	\$ 141,116	\$ 2,829,118	\$ 139,826	\$ (5,938,773)	\$ (700,142)	\$ (6,638,915)
General Revenues:							
Property taxes for general purposes					\$ 3,789,442	\$ 728,669	\$ 4,518,111
Liquor tax apportionment					4,550	-	4,550
Miscellaneous					476,382	3,350	479,732
Interest/investment earnings					28,718	1,566	30,284
PILT					303,664	-	303,664
State entitlement					902,688	-	902,688
Grants and entitlements not restricted to specific programs					88,458	-	88,458
Licenses and Permits					19,921	-	19,921
Contributions & donations					10,864	-	10,864
Local Option Tax					331,970	-	331,970
Fire					12,000	-	12,000
Total general revenues, special items and transfers					\$ 5,968,657	\$ 733,585	\$ 6,702,242
Change in net position					\$ 29,884	\$ 33,443	\$ 63,327
Net position - beginning					\$ 17,291,388	\$ 1,045,523	\$ 18,336,911
Restatements					(114,449)	-	(114,449)
Net position - beginning - restated					\$ 17,176,939	\$ 1,045,523	\$ 18,222,462
Net position - end					\$ 17,206,823	\$ 1,078,966	\$ 18,285,789

See accompanying Notes to the Financial Statements

**Sanders County, Montana  
Balance Sheet  
Governmental Funds  
June 30, 2013**

	<u>General</u>	<u>Road</u>	<u>Public Safety (Law Enforcement)</u>	<u>CTEP (Comm. Tras Enhancement Program)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 3,045,283	\$ 921,604	\$ 363,169	\$ -	\$ 2,138,393	\$ 6,468,449
Taxes and assessments receivable, net	77,401	25,141	60,079	-	51,843	214,464
Due from other funds	64,154	-	-	-	-	64,154
Due from other governments	3,592	-	-	131,423	1	135,016
Inventories	-	54,675	-	-	43,300	97,975
Total current assets	<u>\$ 3,190,430</u>	<u>\$ 1,001,420</u>	<u>\$ 423,248</u>	<u>\$ 131,423</u>	<u>\$ 2,233,537</u>	<u>\$ 6,980,058</u>
Total assets	<u>\$ 3,190,430</u>	<u>\$ 1,001,420</u>	<u>\$ 423,248</u>	<u>\$ 131,423</u>	<u>\$ 2,233,537</u>	<u>\$ 6,980,058</u>
<b>LIABILITIES</b>						
Current liabilities:						
Warrants payable	\$ 790	\$ -	\$ -	\$ -	\$ -	\$ 790
Accounts payable	2,546	73	5,963	-	3,748	12,330
Due to other funds	-	-	-	34,085	30,069	64,154
Due to other governments	2,011	-	-	-	25,077	27,088
Deferred revenue	77,401	25,141	60,079	-	51,843	214,464
Total current liabilities	<u>\$ 82,748</u>	<u>\$ 25,214</u>	<u>\$ 66,042</u>	<u>\$ 34,085</u>	<u>\$ 110,737</u>	<u>\$ 318,826</u>
Total liabilities	<u>\$ 82,748</u>	<u>\$ 25,214</u>	<u>\$ 66,042</u>	<u>\$ 34,085</u>	<u>\$ 110,737</u>	<u>\$ 318,826</u>
<b>FUND BALANCES</b>						
Nonspendable	\$ -	\$ 54,675	\$ -	\$ -	\$ 43,300	\$ 97,975
Restricted	-	921,531	357,206	97,338	2,112,564	3,488,639
Unassigned fund balance	<u>3,107,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,064)</u>	<u>3,074,618</u>
Total fund balance	<u>\$ 3,107,682</u>	<u>\$ 976,206</u>	<u>\$ 357,206</u>	<u>\$ 97,338</u>	<u>\$ 2,122,800</u>	<u>\$ 6,661,232</u>
Total liabilities and fund balance	<u>\$ 3,190,430</u>	<u>\$ 1,001,420</u>	<u>\$ 423,248</u>	<u>\$ 131,423</u>	<u>\$ 2,233,537</u>	<u>\$ 6,980,058</u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2013**

<b>Total fund balances - governmental funds</b>	\$	6,661,232
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		11,458,193
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		214,464
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(1,127,066)
<b>Total net position - governmental activities</b>	<b>\$</b>	<u><u>17,206,823</u></u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

	<u>General</u>	<u>Road</u>	<u>Public Safety (Law Enforcement)</u>	<u>CTEP (Comm. Tras Enhancement Program)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes and assessments	\$ 1,959,383	\$ 848,804	\$ 1,178,467	\$ -	\$ 1,079,964	\$ 5,066,618
Licenses and permits	275	-	14,420	-	-	14,695
Intergovernmental	381,604	1,337,931	113,500	195,571	638,149	2,666,755
Charges for services	235,167	2,177	287,766	-	369,437	894,547
Fines and forfeitures	61,279	-	252	-	5,992	67,523
Miscellaneous	86,891	19,346	10,110	-	161,972	278,319
Investment earnings	27,112	-	-	-	1,606	28,718
Total revenues	<u>\$ 2,751,711</u>	<u>\$ 2,208,258</u>	<u>\$ 1,604,515</u>	<u>\$ 195,571</u>	<u>\$ 2,257,120</u>	<u>\$ 9,017,175</u>
<b>EXPENDITURES</b>						
General government	\$ 1,974,022	\$ 9,411	\$ -	\$ -	\$ 23,015	\$ 2,006,448
Public safety	48,046	-	1,614,829	-	256,546	1,919,421
Public works	-	2,057,426	-	-	632,362	2,689,788
Public health	208,195	-	-	-	150,823	359,018
Social and economic services	151,482	-	-	-	244,992	396,474
Culture and recreation	-	-	-	-	407,674	407,674
Housing and community development	19,829	-	-	-	-	19,829
Debt service - principal	-	-	-	-	31,198	31,198
Debt service - interest	-	-	-	-	3,549	3,549
Miscellaneous	-	-	-	-	227,353	227,353
Capital outlay	18,811	139,933	-	195,663	209,981	564,388
Total expenditures	<u>\$ 2,420,385</u>	<u>\$ 2,206,770</u>	<u>\$ 1,614,829</u>	<u>\$ 195,663</u>	<u>\$ 2,187,493</u>	<u>\$ 8,625,140</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 331,326</u>	<u>\$ 1,488</u>	<u>\$ (10,314)</u>	<u>\$ (92)</u>	<u>\$ 69,627</u>	<u>\$ 392,035</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of general long term debt	\$ -	\$ -	\$ -	\$ -	\$ 24,018	\$ 24,018
Transfers in	127,881	185,245	62,399	-	37,015	412,540
Transfers out	(284,659)	-	-	-	(127,881)	(412,540)
Total other financing sources (uses)	<u>\$ (156,778)</u>	<u>\$ 185,245</u>	<u>\$ 62,399</u>	<u>\$ -</u>	<u>\$ (66,848)</u>	<u>\$ 24,018</u>
Net Change in Fund Balance	<u>\$ 174,548</u>	<u>\$ 186,733</u>	<u>\$ 52,085</u>	<u>\$ (92)</u>	<u>\$ 2,779</u>	<u>\$ 416,053</u>
Fund balances - beginning	\$ 3,087,009	\$ 789,473	\$ 305,121	\$ 58,004	\$ 2,120,021	\$ 6,359,628
Restatements	(153,875)	-	-	39,426	-	(114,449)
Fund balances - beginning, restated	<u>\$ 2,933,134</u>	<u>\$ 789,473</u>	<u>\$ 305,121</u>	<u>\$ 97,430</u>	<u>\$ 2,120,021</u>	<u>\$ 6,245,179</u>
Fund balance - ending	<u>\$ 3,107,682</u>	<u>\$ 976,206</u>	<u>\$ 357,206</u>	<u>\$ 97,338</u>	<u>\$ 2,122,800</u>	<u>\$ 6,661,232</u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2013**

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

<b>Net change in fund balances - total governmental funds</b>	\$	416,053
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
- Capital assets purchased		564,388
- Depreciation expense		(792,114)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
- Long-term receivables (deferred revenue)		(65,452)
The change in compensated absences is shown as an expense in the Statement of Activities		
		13,606
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		31,198
Long term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:		
- Proceeds from the sale of long-term debt		(24,018)
Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		
- Post-employment benefits other than retirement liability		(113,777)
<b>Change in net position - Statement of Activities</b>	\$	29,884

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

		<b>Business-Type Activities - Enterprise Funds</b>
		<u><b>Solid Waste</b></u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	419,912
Taxes and assessments receivable, net		184,858
Total current assets	\$	<u>604,770</u>
Noncurrent assets:		
Capital assets - land	\$	54,440
Capital assets - depreciable, net		530,176
Total noncurrent assets	\$	<u>584,616</u>
Total assets	\$	<u><u>1,189,386</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$	235
Current portion of compensated absences payable		24,590
Total current liabilities	\$	<u>24,825</u>
Noncurrent liabilities:		
Noncurrent portion of long-term liabilities	\$	73,133
Noncurrent portion of compensated absences		12,462
Total noncurrent liabilities	\$	<u>85,595</u>
Total liabilities	\$	<u>110,420</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$	584,616
Unrestricted		494,350
Total net position	\$	<u>1,078,966</u>
Total liabilities and net position	\$	<u><u>1,189,386</u></u>

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2013**

		<u><b>Business-Type Activities - Enterprise Fund</b></u>
		<u><b>Solid Waste</b></u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	126,994
Miscellaneous revenues		3,350
Special assessments		728,669
Total operating revenues	\$	<u>859,013</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	374,481
Supplies		1,242
Purchased services		362,327
Fixed charges		14,009
Depreciation		75,077
Total operating expenses	\$	<u>827,136</u>
Operating income (loss)	\$	<u>31,877</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest revenue	\$	1,566
Total non-operating revenues (expenses)	\$	<u>1,566</u>
Income (loss) before contributions and transfers	\$	<u>33,443</u>
Changes in net position	\$	<u>33,443</u>
Net Position - Beginning of the year	\$	1,045,523
Net Position - End of the year	\$	<u><u>1,078,966</u></u>

See accompanying Notes to the Financial Statements

**Sanders County  
Statement of Cash Flows  
Proprietary Funds  
Fiscal Year Ended June 30, 2013**

**Business - Type Activities  
- Enterprise Funds**

		<u>Solid Waste</u>
<b>Cash flows from operating activities:</b>		
Cash received from providing services	\$	873,464
Cash received from miscellaneous sources		3,350
Cash payments to suppliers		(23,660)
Cash payments for professional services		(362,327)
Cash payments to employees		(339,512)
Net cash provided (used) by operating activities	\$	<u>151,315</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	\$	(78,936)
Net cash provided (used) by capital and related financing activities	\$	<u>(78,936)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	\$	1,566
Net cash provided (used) by investing activities	\$	<u>1,566</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	\$	73,945
<b>Cash and cash equivalents at beginning</b>		345,967
<b>Restatements - Includes beginning restricted cash</b>		
<b>Cash and cash equivalents at end</b>	\$	<u><u>419,912</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$	31,877
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		75,077
Other post-employment benefits		37,925
Changes in assets and liabilities:		
Cash received from providing services		17,801
Cash paid to suppliers		(8,409)
Cash paid to employees		(2,956)
Net cash provided (used) by operating activities	\$	<u><u>151,315</u></u>

See accompanying notes to the financial statements

**Sanders County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2013**

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 10,234,426	\$ 684,715
Taxes receivable	-	555,835
Total assets	<u>\$ 10,234,426</u>	<u>\$ 1,240,550</u>
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 512,019
Due to others	-	728,531
Total liabilities	<u>\$ -</u>	<u>\$ 1,240,550</u>
<b>NET POSITION</b>		
Assets held in trust	<u>\$ 10,234,426</u>	

See accompanying Notes to the Financial Statements

**Sanders County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

		<u><b>Investment Trust Funds</b></u>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	<u>10,283,959</u>
Total contributions	\$	<u>10,283,959</u>
Investment earnings:		
Interest and change in fair value of investments	\$	<u>122,817</u>
Net investment earnings		<u>122,817</u>
Total additions	\$	<u>10,406,776</u>
<b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>9,852,527</u>
Total deductions	\$	<u>9,852,527</u>
Change in net position	\$	<u>554,249</u>
Net Position - Beginning of the year	\$	9,680,177
Net Position - End of the year	\$	<u><u>10,234,426</u></u>

See accompanying Notes to the Financial Statements

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013

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

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

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

**Financial Reporting Entity**

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

*Primary Government*

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

*Related Organizations*

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

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

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013

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

***Government-wide Financial Statements:***

*Basis of Presentation*

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

Eliminations have been made to minimize the double-counting of business type activities.

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

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

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

SANDERS COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2013

**Fund Financial Statements:**

*Basis of Presentation*

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

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

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

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

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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

*Major Funds:*

The County reports the following major governmental funds:

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

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

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

*CTEP fund* – A special revenue fund that is used to account for grant and other revenues and related expenditures for the High Bridge Phase II project.

***Proprietary Funds:***

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

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

Major Funds:

The County reports the following major proprietary funds:

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

***Fiduciary Funds***

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

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

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

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

**Cash Composition**

Composition of cash, deposits and investments at fair value on June 30, 2013, are as follows:

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	\$ 1,200
Cash in banks:	
Demand deposits	852,932
Savings deposits	7,140,000
Time deposits	<u>9,813,370</u>
Total	<u>\$ 17,807,502</u>

**Credit Risk**

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

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

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

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

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

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

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

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

The government has no investments that require credit risk disclosure.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2013 the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>Balance</u>
Insured	\$ 1,020,712
- Collateral held by the pledging bank's trust department but not in the County's name.	<u>16,977,910</u>
Total deposits and investments	<u>\$ 17,998,622</u>

Deposit Security

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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

The amount of collateral held for County deposits at June 30, 2013, equaled or exceeded the amount required by State statutes.

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and investments." In addition, investments are separately held by several of the government's funds. The deposits and investments of the Plains High School fund are held separately from those of other government funds.

**Investment in the Treasurer's Pools**

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

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2013 to support the value of the shares in the pool.

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

**Investment Income**

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

**Condensed statements of investments pools**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2013.

**Statement of Net Position**

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 7,569,864
Equity of external pool participants	<u>10,234,426</u>
Total equity	<u>\$ 17,804,290</u>

**Condensed Statement of Changes in Net Position**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 122,817	\$ 36,662
Contributions to trust	10,283,959	7,683,132
Distributions paid	<u>(9,852,527)</u>	<u>(7,572,540)</u>
Net change in net assets	<u>\$ 554,249</u>	<u>\$ 147,254</u>
Net assets at beginning of year	<u>9,680,177</u>	<u>7,422,610</u>
Net assets at end of year	<u>\$ 10,234,426</u>	<u>\$ 7,569,864</u>

**Cash equivalents**

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

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained.

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

**NOTE 4. INVENTORIES**

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**NOTE 5. CAPITAL ASSETS**

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2013 Basic Financial Statements.

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 1,835,865	\$ 9,567	\$ -	\$ -	\$ 1,845,432
Construction in Progress	<u>244,400</u>	<u>-</u>	<u>-</u>	<u>(19,000)</u>	<u>225,400</u>
Total capital assets not being depreciated	<u>\$ 2,080,265</u>	<u>\$ 9,567</u>	<u>\$ -</u>	<u>\$ (19,000)</u>	<u>\$ 2,070,832</u>
Other capital assets:					
Buildings	\$ 2,542,451	\$ 53,691	\$ -	\$ -	\$ 2,596,142
Improvements other than buildings	8,401,853	274,246	-	19,000	8,695,099
Machinery and equipment	<u>7,771,587</u>	<u>226,884</u>	<u>(70,000)</u>	<u>-</u>	<u>7,928,471</u>
Total other capital assets at historical cost	<u>\$ 18,715,891</u>	<u>\$ 554,821</u>	<u>\$ (70,000)</u>	<u>\$ 19,000</u>	<u>\$ 19,219,712</u>
Less accumulated depreciation	<u>\$ (9,110,237)</u>	<u>\$ (792,114)</u>	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ (9,832,351)</u>
Total	<u>\$ 11,685,919</u>	<u>\$ (227,726)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,458,193</u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 43,742
Public safety	164,756
Public works	533,628
Public health	4,912
Culture and recreation	41,587
Housing and community development	<u>3,489</u>
Total governmental activities depreciation expense	<u>\$ 792,114</u>

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not being depreciated:			
Land	\$ 54,440	\$ -	\$ 54,440
Other capital assets:			
Buildings	\$ 380,973	\$ -	\$ 380,973
Improvements other than buildings	1,499	-	1,499
Machinery and equipment	<u>1,329,079</u>	<u>78,936</u>	<u>1,408,015</u>
Total other capital assets at historical cost	<u>\$ 1,711,551</u>	<u>\$ 78,936</u>	<u>\$ 1,790,487</u>
Less accumulated depreciation	<u>\$ (1,185,234)</u>	<u>\$ (75,077)</u>	<u>\$ (1,260,311)</u>
Total	<u>\$ 580,757</u>	<u>\$ 3,859</u>	<u>\$ 584,616</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

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

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

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 347,627	\$ -	\$ (13,567)	\$ 334,021	\$ 229,288
Intercap loans	218,670	-	(26,684)	191,986	28,876
Loans/contracted debt	-	24,018	(4,514)	19,504	4,584
Other post-employment benefits *	<u>467,778</u>	<u>113,777</u>	<u>-</u>	<u>581,555</u>	<u>-</u>
Total	<u>\$ 1,034,075</u>	<u>\$ 137,795</u>	<u>\$ 44,765</u>	<u>\$ 1,127,066</u>	<u>\$ 262,748</u>

\*See Note 10

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

Business-type Activities:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 35,812	\$ 1,240	\$ 37,052	\$ 24,590
Other post-employment benefits *	<u>35,208</u>	<u>37,925</u>	<u>73,133</u>	<u>-</u>
Total	<u>\$ 69,497</u>	<u>\$ 39,165</u>	<u>\$ 110,185</u>	<u>\$ 24,590</u>

\*See Note 10

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

**Loans/Contracted Debt**

Loans/contracted debts outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
Utility Tractor	8/7/12	4.25%	58 mths	6/20/17	\$ 24,018	\$ 19,504

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,584	\$ 829
2015	4,779	634
2016	4,982	431
2017	5,159	219
<b>Total</b>	<b>\$ 19,504</b>	<b>\$ 2,113</b>

**Intercap Loans**

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

Intercap loans outstanding as of June 30, 2013 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2013</u>
Fairgrounds Area Holding Pens Upgrade	07/11/2008	1-4.25%	10 yrs	08/15/2018	\$ 140,941	\$ 84,166
Concession Stand/Fairgrounds Imp. Draws 1-2	07/30/2010	1-1.95%	10 yrs	08/15/2020	140,556	107,820
<b>Total</b>					<b>\$ 291,497</b>	<b>\$ 191,986</b>

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 28,876	\$ 1,848
2015	29,165	1,558
2016	29,458	1,266
2017	29,753	971
2018	30,051	672
2019	22,470	371
2020	14,772	185
2021	7,441	37
<b>Total</b>	<b>\$ 191,986</b>	<b>\$ 6,908</b>

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**Compensated Absences**

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

**NOTE 7. DEFICIT FUND BALANCES/NET POSITION**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
Law enforcement block grant	\$ 20,817	Carryover of prior deficit	Future grant revenue
Public Health Miscellaneous Grants	625	Carryover of prior deficit	Future revenues
WIC	647	Revenues were not sufficient to cover current expenditures	Future revenues
Niarada Cemetary	3,245	Carryover of prior deficit	Future revenues
Special Projects	7,730	Carryover of prior deficit and current revenues insufficient for current expenditures	Future revenues
Total	<u>\$ 33,064</u>		

**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2013, was as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>	<u>Payable Fund</u>	<u>Amount</u>
	<u>Receivable Fund</u>		
To cover negative cash balance	General – Major Governmental	Law Enforcement Block Grant – Nonmajor Governmental	\$ 20,408
To cover negative cash balance	General – Major Governmental	Special Projects – Nonmajor Governmental	7,730
To cover negative cash balance	General – Major Governmental	CTEP – Major Governmental	34,085
To cover negative cash balance	Special Projects – Nonmajor Governmental	Law Enforcement Block Grant – Nonmajor Governmental	409
To cover negative cash balance	Special Projects – Nonmajor Governmental	Public Health Miscellaneous Grants – Nonmajor Governmental	525
To cover negative cash balance	Special Projects – Nonmajor Governmental	WIC – Nonmajor Governmental	<u>997</u>
			<u>\$ 64,154</u>

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2013:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Operating transfer	County Fair – Nonmajor Governmental	General – Major Governmental	\$ 5,713
Operating transfer	Road – Major Governmental	General – Major Governmental	185,245
Operating transfer	Public Safety – Major Governmental	General – Major Governmental	62,399
To repay loan	Airport – Nonmajor Governmental	General – Major Governmental	28,339
Operating transfer	Predator Animal Control – Nonmajor Governmental	General – Major Governmental	250
Operating transfer	Weed Control – Nonmajor Governmental	General – Major Governmental	2,713
Transfer for insurance	General – Major Governmental	Permissive Medical Levy – Nonmajor Governmental	<u>127,881</u>
Total			<u>\$ 412,540</u>

**NOTE 9. STATE-WIDE RETIREMENT PLANS**

All full-time County employees are covered under one of the following retirement plans: Montana Public Employees Retirement System (PERS) and Sheriffs Retirement System (SRS). The plans are established by State law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2013 for the defined benefit plans, were:

	<u>PERS**</u>	<u>SRS</u>
Employer	7.07%	10.115%
Employee	6.90%*	9.425%
State	0.10%	-

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

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

The County's contributions for the years ended June 30, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>SRS</u>
2011	\$ 186,070	\$ 60,608
2012	\$ 182,804	\$ 67,539
2013	\$ 180,858	\$ 67,661

**NOTE 10. POSTEMPLOYMENT HEALTHCARE PLAN**

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

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

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

Actuarial Accrued Liability (AAL)	\$	864,050
Actuarial value of plan assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	864,050
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	3,403,786
UAAL as a percentage of covered payroll		25.38%

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

Annual Required Contribution (ARC)	\$	151,702
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	-
Annual OPEB cost (expense)	\$	151,702
Contributions made	\$	-
Increase in net OPEB obligation	\$	151,702
Net OPEB obligation - beginning of year	\$	502,986
Net OPEB obligation - end of year	\$	654,688

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

Actuarial cost method		Unit Credit Cost Method
Average age of retirement (based on historical data)		62
Discount rate (average anticipated rate)		2.00%
Average salary increase (Consumer Price Index)		2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>		
<u>Year</u>		<u>% Increase</u>
2012		3.8%
2013		4.0%
2014		7.8%
2015		6.4%
2016		6.2%
2017		6.0%
2018		6.4%
2019		6.8%
2020		6.9%
2021		6.7%
2022 and after		6.9%

**NOTE 11. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2013

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

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

**Nonspendable Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Reason Nonspendable</u>
Road	\$ 54,675	Inventory
Other governmental funds	<u>43,300</u>	Inventory
	<u>\$ 97,975</u>	

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 921,531	Public works
Public Safety	357,205	Public safety
CTEP	97,338	Housing and community development
Other governmental funds	121,283	General government
	1,283,058	Public works
	253,946	Public health
	117,568	Culture and recreation
	186,585	Public safety
	42,664	Social and economic services
	8,522	Miscellaneous
	<u>98,939</u>	Capital outlay
Total	<u>\$ 3,488,639</u>	

**NOTE 14. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 153,875	Reimbursement of federal funds received in prior year
CTEP	<u>(39,426)</u>	Unrecorded prior year due from other government
	<u>\$ 114,449</u>	

**NOTE 15. JOINT VENTURES**

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

**County Library**

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

**NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS**

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

**NOTE 17. RISK MANAGEMENT**

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

Insurance Policies:

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

SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2013

Insurance Pools:

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

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

**NOTE 18. PENDING LITIGATION**

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

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
Ross Fratzky & Debra Fratzky v. Sanders County	Not stated	Not stated
Keith v. Sanders County (DV13-44)	Not stated	Not stated

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2013**

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,911,265	\$ 1,911,265	\$ 1,959,383	\$ 48,118
Licenses and permits	500	500	275	(225)
Intergovernmental	77,162	77,162	77,940	778
Charges for services	253,105	253,105	235,167	(17,938)
Fines and forfeitures	60,525	60,525	61,279	754
Miscellaneous	84,450	84,450	86,891	2,441
Investment earnings	45,000	45,000	27,112	(17,888)
Amounts available for appropriation	<u>\$ 2,432,007</u>	<u>\$ 2,432,007</u>	<u>\$ 2,448,047</u>	<u>\$ 16,040</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,644,328	\$ 2,644,328	\$ 1,974,022	\$ 670,306
Public safety	48,676	48,676	48,046	630
Public works	-	-	-	-
Public health	368,509	368,509	208,195	160,314
Social and economic services	169,701	169,701	151,482	18,219
Housing and community development	20,000	20,000	19,829	171
Capital outlay	1,011,000	1,011,000	18,811	992,189
Total charges to appropriations	<u>\$ 4,262,214</u>	<u>\$ 4,262,214</u>	<u>\$ 2,420,385</u>	<u>\$ 1,841,829</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	438,702	438,702	438,702	-
Transfers out	(284,659)	(284,659)	(284,659)	-
Total other financing sources (uses)	<u>\$ 154,043</u>	<u>\$ 154,043</u>	<u>\$ 154,043</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 181,705</u>	
Fund balance - beginning of the year			\$ 2,776,188	
Restatements			(153,875)	
Fund balance - beginning of the year - restated			<u>\$ 2,622,313</u>	
<b>Fund balance - end of the year</b>			<u>\$ 2,804,018</u>	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2013**

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 830,181	\$ 830,181	\$ 848,804	\$ 18,623
Licenses and permits	-	-	-	-
Intergovernmental	1,237,082	1,237,082	1,337,931	100,849
Charges for services	7,000	7,000	2,177	(4,823)
Fines and forfeitures	-	-	-	-
Miscellaneous	8,300	8,300	19,346	11,046
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 2,082,563</u>	<u>\$ 2,082,563</u>	<u>\$ 2,208,258</u>	<u>\$ 125,695</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 22,100	\$ 22,100	\$ 9,411	\$ 12,689
Public safety	-	-	-	-
Public works	2,388,159	2,388,159	2,057,426	330,733
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Capital outlay	311,435	311,435	139,933	171,502
Total charges to appropriations	<u>\$ 2,721,694</u>	<u>\$ 2,721,694</u>	<u>\$ 2,206,770</u>	<u>\$ 514,924</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	185,245	185,245	185,245	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ 185,245</u>	<u>\$ 185,245</u>	<u>\$ 185,245</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ 186,733</u>	
Fund balance - beginning of the year			\$ 789,473	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 789,473</u>	
<b>Fund balance - end of the year</b>			<u>\$ 976,206</u>	

**Sanders County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2013**

<b>Public Safety (Law Enforcement)</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	
			<b>(BUDGETARY</b>	<b>WITH FINAL</b>
			<b>BASIS) See Note A</b>	<b>BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 1,145,776	\$ 1,145,776	\$ 1,178,467	\$ 32,691
Licenses and permits	6,000	6,000	14,420	8,420
Intergovernmental	130,879	130,879	113,500	(17,379)
Charges for services	210,221	285,221	287,766	2,545
Fines and forfeitures	1,000	1,000	252	(748)
Miscellaneous	13,700	14,900	10,110	(4,790)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 1,507,576</u>	<u>\$ 1,583,776</u>	<u>\$ 1,604,515</u>	<u>\$ 20,739</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	1,720,128	1,733,828	1,614,829	118,999
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Capital outlay	10,000	10,000	-	10,000
Total charges to appropriations	<u>\$ 1,730,128</u>	<u>\$ 1,743,828</u>	<u>\$ 1,614,829</u>	<u>\$ 128,999</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	62,399	62,399	62,399	-
Transfers out	(127,881)	(127,881)	-	127,881
Total other financing sources (uses)	<u>\$ (65,482)</u>	<u>\$ (65,482)</u>	<u>\$ 62,399</u>	<u>\$ 127,881</u>
Net change in fund balance			<u>\$ 52,085</u>	
Fund balance - beginning of the year			\$ 305,121	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 305,121</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 357,206</u></u>	

Sanders County, Montana  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2013

<b>CTEP (Comm. Tras Enhancement Program)</b>				
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	<b>WITH FINAL</b>
			<b>(BUDGETARY</b>	<b>BUDGET</b>
			<b>See Note A</b>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	260,605	260,605	195,571	(65,034)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	200	200	-	(200)
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>\$ 260,805</u>	<u>\$ 260,805</u>	<u>\$ 195,571</u>	<u>\$ (65,234)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Housing and community development	-	-	-	-
Capital outlay	260,109	260,109	195,663	64,446
Total charges to appropriations	<u>\$ 260,109</u>	<u>\$ 260,109</u>	<u>\$ 195,663</u>	<u>\$ 64,446</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance			<u>\$ (92)</u>	
Fund balance - beginning of the year			\$ 58,004	
Restatements			<u>39,426</u>	
Fund balance - beginning of the year - restated			<u>\$ 97,430</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 97,338</u></u>	

**Sanders County, Montana  
Budgetary Comparison Schedule  
Budget-to-GAAP Reconciliation**

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

	<b>General</b>	<b>Road</b>	<b>Public Safety (Law Enforcement)</b>	<b>CTEP (Comm. Tras Enhancement Program)</b>
<b>Sources/Inflows of resources</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,448,047	\$ 2,208,258	\$ 1,604,515	\$ 195,571
Combined funds (GASBS 54) revenues	303,664			
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 2,751,711	\$ 2,208,258	\$ 1,604,515	\$ 195,571
<b>Uses/Outflows of resources</b>				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,420,385	\$ 2,206,770	\$ 1,614,829	\$ 195,663
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 2,420,385	\$ 2,206,770	\$ 1,614,829	\$ 195,663

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

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

# **SINGLE AUDIT SECTION**

**Sanders County, Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2013**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditure June 30, 2013</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through Montana Department of Public Health and Human Services:</i>			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	12-07-5-21-017-0	\$ 50,544
<i>Passed through Montana Department of Agriculture:</i>			
Cooperative Forestry Assistance	10.664	MDA 2011-721	9,204
Forest Health Protection	10.680	2012-736	14,450
<i>Passed through Montana State Auditor's Office:</i>			
Schools and Roads - Grants to States	10.665	N/A	1,319,592
Schools and Roads - Grants to States	10.665	N/A	127,513
<i>Passed through the National Fish and Wildlife Foundation:</i>			
National Fish and Wildlife Foundation	10.683	2011-0034-004	3,889
<b>Total U.S. Department of Agriculture</b>			<b>\$ 1,525,192</b>
<b><u>U.S. Department of Justice</u></b>			
<i>Direct</i>			
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0533	\$ 42,827
Public Safety Partnership and Community Policing Grants	16.710	2011UMWX0110	42,892
<b>Total U.S. Department of Justice</b>			<b>\$ 85,719</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct</i>			
Airport Improvement Program	20.106	3-30-0059-008-2011	\$ 10,302
<i>Passed through Montana Department of Transportation</i>			
Highway Planning and Construction	20.205	7508	195,663
Incentive Grant Program to Prohibit Racial Profiling	20.611	CTS - 106348	17,425
<i>Passed through Montana Sheriffs and Peace Officers Association</i>			
State and Community Highway Safety	20.600	N/A	4,556
<b>Total U.S. Department of Transportation</b>			<b>\$ 227,946</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through Montana Department of Public Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	12-07-6-11-047-0	\$ 45,953
Environmental health emergency response	93.070	12-07-301-1030	5,648
Maternal and Child Health Services Block Grant to the States	93.994	14-0-5-01-045	13,431
<i>Passed through Community Action Partnership of Northwestern Montana:</i>			
Community Services Block Grant	93.569	11-253	4,000
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 69,032</b>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through Montana Department of Military Affairs:</i>			
Emergency Management Performance Grants	97.042	EMW-2011-EP-00035	\$ 18,974
Homeland Security Grant Program	97.067	PDMC-PL-08-MT-2011-009	4,900
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 23,874</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 1,931,763</b>

N/A = Not Applicable or Not Available

SANDERS COUNTY, MONTANA

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

Fiscal Year Ended June 30, 2013

*Basis of Presentation*

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

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

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

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

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sanders County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Sanders County's basic financial statements and have issued our report thereon dated March 20, 2014.

**Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as item 13-3.

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 accompanying schedule of findings and questioned costs to be significant deficiencies as identified as items 13-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sanders County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 13-2.

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

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

### **Purpose of this Report**

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

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

March 20, 2014

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

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

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

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

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

We have audited Sanders County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Sanders County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Sanders County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of County's compliance.

### **Basis for Qualified Opinion on Highway Planning and Construction CFDA #20.205**

As described in the accompanying schedule of findings and questioned costs, Sanders County did not comply with requirements regarding CFDA 20.205 Highway Planning and Construction as described in finding number 13-3 for reporting. Compliance with such requirements is necessary, in our opinion, for Sanders County to comply with the requirements applicable to that program.

### **Qualified Opinion on Highway Planning and Construction CFDA #20.205**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Sanders County, complied, in all material respects, with the types of compliance requirements referred to above that county have a direct and material effect on CFDA 20.205 Highway Planning and Construction for the year ended June 30, 2013.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, Sanders County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 13-4. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses 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 and significant deficiencies.

*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 13-3 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 13-4 to be significant deficiencies.

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

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

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

March 20, 2014

SANDERS COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2013

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

**Financial Statements**

Type of auditor’s report issued	<i>Unmodified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	Yes

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Type of auditor’s report issued on compliance for major programs:	<i>Qualified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

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

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II – Financial Statement Findings

#### 13-1 Double recording of liability insurance expense

**Condition:**

The comprehensive liability fund records expenditure for the full amount of liability insurance paid. In addition, other funds at the County which should be recording the liability expenditure record the expenditure by reimbursing the comprehensive liability fund. The comprehensive liability fund records the reimbursement as revenue instead of an offset to expenditure.

**Criteria:**

A reimbursement from one fund to another should be recorded as an offset to expenditure to prevent the same expenditure being reported in both funds.

**Effect:**

The expenditures for liability insurance are overstated in the comprehensive liability fund by \$81,258 which is the amount recorded for liability insurance expense across the other funds. Likewise, revenues in the comprehensive liability are overstated by \$81,258.

**Cause:**

The comprehensive liability fund records the reimbursement from other funds as revenue rather than an offset to expenditures.

**Recommendation:**

We recommend that Sanders County record the reimbursement to comprehensive liability fund each year as an offset to expenditure rather than a revenue.

#### 13-2 Exceeded Mill Levy Limitations under section 15-10-420 MCA

**Condition:**

In fiscal year 2013, the County levied 85.85 mills for the county wide levy. This is 8.34 mills over the allowable amount of 77.51 mills per the correct mill levy limitations calculation.

**Criteria:**

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

**Effect:**

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

**Cause:**

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

**Recommendation:**

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

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

#### 13-3 Unrecorded due from other governments

**CFDA Title: Highway Planning and Construction**

**CFDA Number: 20.205**

**Federal Award Number: N/A**

**Federal Agency: United States Department of Transportation**

**Pass-through Entity: State of Montana Department of Transportation**

**Condition:**

Cash received in the current year in the CTEP fund in the amount of \$39,426 was associated with fiscal year 2012 expenditures and should have been recorded as revenue and receivable in the prior fiscal year.

**Criteria:**

For reimbursable grants such as the CTEP grant revenues are recorded in the period in which the expenditures are incurred.

**Effect:**

Revenues in the CTEP fund in the current year were overstated by \$39,426 and beginning fund balance for the current year was understated by a corresponding \$39,426. This has been corrected for financial reporting.

**Cause:**

An accrual entry was not recorded in the prior year for \$39,426 in CTEP revenues associated with expenditures which occurred in that period.

**Recommendation:**

We recommend that grant funds are monitored for expenditures and revenues recorded after fiscal year end which should be accrued to the current fiscal period.

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

**13-4 County's Certification of Title III Expenditures and Unobligated Funds**

**CFDA Title: Schools and Roads – Grants to States**

**CFDA Number: 10.665**

**Federal Award Number:**

**Federal Agency:**

**Pass-through Entity: Montana State Auditor's Office**

**Condition:**

The County expended Title III funds in 2013, but did not submit the proper certification by February 1, 2014.

**Criteria:**

Not later than February 1 of the year after the year in which any title III county funds were expended by a participating county, the participating county must submit a certification that the county funds expended in the applicable year have been used for the uses authorized under this title, including a description of the amounts expended and their uses. The participating county certification also must include the amount of title III funds not obligated by September 30 of the previous year.

**Effect:**

The County is not in compliance with the reporting requirements of Title III funding.

**Cause:**

The County was not aware of this requirement.

**Recommendation:**

We recommend that the County submit the proper certification reports to the United States Forest Service each February after Title III funds are expended in the prior year.

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Sanders County  
Thompson Falls, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
12-1 The Fair Foundation	Implemented
12-2 Exceeded Mill Levy Limitations under Section 15-10-420, MCA	Repeated
12-3 Subrecipient Monitoring (Repeat of prior year finding 11-6)	Implemented

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

March 20, 2014



**Nichol Scribner**  
**Sanders County Clerk & Recorder/Assessor/Surveyor**  
PO Box 519  
Thompson Falls, MT 59873  
406-827-6922 (Phone)  
406-827-6970 (Fax)  
nscribner@sanderscounty.mt.gov

March 10, 2014

Denning, Downey & Associates, P.C.  
PO Box 1957  
Kalispell, MT 59903

Dear Mr. Poelman:

This is Sanders County response to the 2013 Audit Findings.

1. Cash received in the current year in the CTEP fund (2956 in the amount of \$39,426 was associated with fiscal year 2012 expenditures and should have been recorded as revenue and receivable in the prior fiscal year.

*Response:* Clerk & Recorder will monitor grant funds for expenditures and revenues recorded after the fiscal year end to insure accrual to the current fiscal period. This process started immediately and will be ongoing.

2. The comprehensive liability fund (Fund 2190) records expenditure for the full amount of liability insurance paid. In addition, other funds at the County which should be recording the liability expenditure record the expenditure by reimbursing Fund 2190. Fund 2190 records the reimbursement as revenue instead of an offset to expenditure.

*Response:* The Clerk & Recorder will record the reimbursement to Fund 2190 each year as an offset to expenditure rather than a revenue through journal voucher. Corrective action plan is in place for 2014 insurance payments.

3. The County expended Title III funds in 2013, but did not submit the proper certification by February 1, 2014.

*Response:* Director of Land Services will submit proper certification reports to the United States Forest Service each February after Title III funds are expended in the prior year. The Director of Land Services located the certification reports and will comply for 2014 reporting in February 2015.

4. In Fiscal year 2013, the County levied 85.85 mills for the county-wide levy. This is 8.34 mills over the allowable amount of 77.51 mills per the correct mill levy limitations calculation.

*Response:* By August 2014, Clerk & Recorder will review the mill levy requirements which are set forth in MCA 15-10-420 prior to establishing mill levies and enforce a review process of the mill levy limitations calculation to ensure accuracy to avoid errors.

Nichol Scribner  
Sanders County, Clerk & Recorder