

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

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

LINCOLN COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**TABLE OF CONTENTS**

Organization	1
Management Discussion and Analysis	2-8
Independent Auditor’s Report	9-11
<b>Financial Statements</b>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	12
Statement of Activities	13
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Fund Types	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Types	19
Statement of Cash Flows – Proprietary Fund Types	20
Statement of Net Position – Fiduciary Fund Types	21
Statement of Changes in Net Position – Fiduciary Fund Types	22
Notes to Financial Statements	23-45
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule	46-50
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	51
<b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards	52
Notes to the Schedule of Expenditures of Federal Awards	53
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	54-55

LINCOLN COUNTY, MONTANA

**TABLE OF CONTENTS – Continued**

Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	56-57
Schedule of Findings and Questioned Costs	58-65
Report on Prior Audit Recommendations	66

LINCOLN COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF COUNTY COMMISSIONERS**

Anthony J. Berget  
Ron Downey  
Mike Cole

Chairperson  
Commissioner  
Commissioner

**COUNTY OFFICIALS**

Bernard G. Cassidy  
Nancy Trotter Higgins  
Tammy D. Lauer  
Susan Farmer  
Jay Sheffield  
Stormy Langston  
Ronald Higgins  
Roby Bowe  
Steven Schnackenberg  
Patricia Noble

County Attorney  
Treasurer  
Clerk and Recorder / Auditor  
Clerk of District Clerk  
Justice of the Peace  
Justice of the Peace  
School Superintendent  
Sheriff  
Coroner  
Public Administrator

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2014 are as follows:

- Continued decreased interest earnings due to lower interest rates and a declining amount to be invested in shorter-term opportunities.
- Substantial increase in the taxable value of the County from \$36,226,327 in fiscal year 2012 to \$36,750,733 in fiscal year 2013.
- Federal PILT payment extended to be paid in 2014 rather than ending in 2013.
- Forest Receipts have been reinstated for an additional year under the Congressional re-authorization of the Secure Rural Schools and Communities Act.

## **USING THIS ANNUAL FINANCIAL REPORT**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. Lincoln County's 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 Assets and the Statement of Activities**

The Statement of Net Asset 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 assets 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 assets are an indicator of whether its financial position is improving or deteriorating. Other factors to consider are changes in the property tax base, legislative changes in tax law, and the condition of infrastructure and other capital assets of the County.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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. Lincoln County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Lincoln 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds:** Lincoln County maintains one proprietary fund reported as an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The Lincoln County Refuse District provides refuse disposal and recycling services to the residents of Lincoln County. Proprietary funds are reported using full accrual accounting, which is the same accounting method, used by the Statement of Net Assets 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 or 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.

**Net Position**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In case of Lincoln County, assets exceeded liabilities by \$36,809,496 at the close of the most recent fiscal year. The following table provided a summary comparison for the County's Governmental and business type net assets for fiscal year 2014 and compare to the prior year.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**Table 1 - Net Position**

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
Current and other assets	\$ 23,914,816	\$ 24,172,690	\$ (257,874)	\$ 3,697,758	\$ 3,459,911	\$ 237,847
Capital assets	10,289,570	21,801,214	(11,511,644)	1,288,339	1,357,524	(69,185)
Total assets	34,204,386	45,973,904	(11,769,518)	4,986,097	4,817,435	168,662
Long-term debt outstanding	\$ 635,564	\$ 631,495	\$ 4,069	\$ 92,783	\$ 98,290	\$ (5,507)
Other liabilities	705,928	882,818	(176,890)	934,867	941,401	(6,534)
Total liabilities	1,341,492	1,514,313	(172,821)	1,027,650	1,039,691	(12,041)
Net investment in capital assets	10,289,570	21,801,214	(11,511,644)	1,288,339	1,357,524	(69,185)
Restricted	19,710,641	19,824,769	(114,128)	-	-	-
Unrestricted (deficit)	2,862,683	2,833,608	29,075	2,670,108	2,420,220	249,888
Total net position	\$ 32,862,894	\$ 44,459,591	\$ (11,596,697)	\$ 3,958,447	\$ 3,777,744	\$ 180,703

**Table 2 - Changes in Net Position**

	Governmental Activities			Business-type Activities		
	FY14	FY13	Change	FY14	FY13	Change
			Inc (Dec)			Inc (Dec)
<b>Revenues</b>						
<i>Program revenues (by major source):</i>						
Charges for services	\$ 960,253	\$ 1,025,563	\$ (65,310)	\$ 1,819,623	\$ 1,824,388	\$ (4,765)
Operating grants and contributions	4,703,566	4,829,315	(125,749)	-	-	-
Capital grants and contributions	228,115	284,648	(56,533)	151,111	-	151,111
<i>General revenues (by major source):</i>						
Property taxes for general purposes	6,285,156	6,033,942	251,214	-	-	-
Miscellaneous	139,789	358,084	(218,295)	2,500	182,710	(180,210)
Interest/investment earnings	328,077	(104,125)	432,202	9,050	-	9,050
PILT	628,135	580,059	48,076	-	-	-
State entitlement	791,939	743,822	48,117	-	-	-
Grants and entitlements not restricted to specific programs	58,706	208,427	(149,721)	-	-	-
Licenses and permits	16,904	18,703	(1,799)	-	-	-
Contributions & donations	8,906	41,100	(32,194)	-	-	-
Total revenues	\$ 14,149,546	\$ 14,019,538	\$ 130,008	\$ 1,982,284	\$ 2,007,098	\$ (24,814)
<b>Program expenses</b>						
General government	\$ 5,470,032	\$ 5,569,369	\$ (99,337)			
Public safety	\$ 3,895,104	\$ 3,713,586	181,518			
Public works	\$ 3,872,474	\$ 3,800,036	72,438			
Public health	\$ 815,068	\$ 974,015	(158,947)			
Social and economic services	\$ 132,007	\$ 155,203	(23,196)			
Culture and recreation	\$ 673,478	\$ 653,711	19,767			
Housing and community development	\$ 225,692	\$ 753,475	(527,783)			
Conservation of natural resources	\$ 17,927	\$ 850,237	(832,310)			
Debt service - interest	\$ 1,104	\$ -	1,104			
Miscellaneous	\$ 138,934	\$ 152,387	(13,453)			
Solid Waste				\$ 1,210,548	\$ 1,433,681	\$ (223,133)
Total expenses	\$ 15,241,820	\$ 16,622,019	\$ (1,380,199)	\$ 1,210,548	\$ 1,433,681	\$ (223,133)
Excess (deficiency) before special items and transfers	(1,092,274)	(2,602,481)	1,510,207	771,736	573,417	198,319
Gain (loss) on retirement of capital assets	-	(86,961)	86,961	-	-	-
Transfers - net	248,179	466,108	(217,929)	(248,179)	(466,108)	217,929
<b>Increase (decrease) in net position</b>	\$ (844,095)	\$ (2,223,334)	\$ 1,379,239	\$ 523,557	\$ 107,309	\$ 416,248

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**Condensed Financial Statements**

By far the largest portion of the County's net assets 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 County's ongoing obligations to citizens and creditors.

The cost of all Governmental activities this year was \$15,011,296 as found in the Statement of Activities. However, as shown on the same statement, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$6,285,156 with some of the costs being paid by those who directly benefited from the 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 financed the remaining portions of budgets.

**BUSINESS TYPE ACTIVITIES**

Enterprise Funds: The County owns and operates the Solid Waste District. The program provides disposal for wastes delivered to its central landfill in Libby. A transfer station is operated in Eureka. Other rural areas in the County are serviced by "green box" sites, which are picked up by the County. User fees support all Solid Waste District services wholly. The enterprise fund's prime objective is to provide disposal services to County residents and businesses. As maintenance and operating expenses increase while revenues remain at a fairly consistent level, fund balances are effected and investment in capital assets are at lower levels as reflected in the following schedule:

**Financial Analysis of the County's Funds**

As noted earlier, Lincoln County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds Overview***

The focus of County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of the end of 2014 the combined ending fund balances of Lincoln County's governmental funds were \$22,775,348. A reserve of \$19,304,326 tax maintains a cash reserve to provide liquidity until tax revenue is received in November. Remaining cash may be re-appropriated in accordance with the purposes of the specific funds.



LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Lincoln County has five major governmental funds: the General Fund, the Road Fund, Public Safety Fund, the Grizzly Bear Study Fund, and the Asbestos Resource Program fund.

**General Fund.**

This is the chief operating fund of Lincoln County. At the end of the fiscal year 2014 unreserved fund balance of the general fund was \$ 4,068,164. Unreserved fund balance as a percentage of total fund expenditures can be a good tool to use to measure the liquidity of the general fund. For fiscal year 2014 the unreserved fund balance represented 94% of total general fund expenditures. It accounts for many of the County's general and administrative services, such as legislative, judicial, financial, elections, facilities administration, legal, and civil defense and emergency services.

**Road Fund**

This fund is used to report all County road projects. At the end of the fiscal year the fund balance was \$15,199,636. All of which is restricted for road projects.

**Public Safety Fund.**

This fund is a special revenue fund used to account for Lincoln County's sheriff, dispatch, coroner and detention services. At the end of the fiscal year ended 2014 unreserved fund balance of the public safety fund was \$ 843,034 and the prior year ending fund balance was \$1,238,828

**The Grizzly Bear Study Fund**

This is a special revenue fund used to account for donations from local stakeholders that are to be directed to grizzly bear studies. At the end of fiscal year 2014 it has a deficit fund balance of \$308,465 which resulted from 2013 expenditures for the study to be in excess of the revenues received from the donations.

**Asbestos Resource Program Fund**

This is a Special revenue fund used to account for revenues dedicated for the asbestos research program for studies, testing and cleanup of asbestos contaminated properties. At fiscal year end, the asbestos resource program fund had a fund balance of \$22,446.

**Solid Waste Fund**

This fund is a proprietary fund used to account for Lincoln County's solid waste services. At the end of the fiscal year ended 2013, the Solid Waste fund had total net position of \$3,958,447, which is an increase from the prior year balance of \$3,777,744.

**FY14 General Fund Budgetary Highlights**

Over the course of the year, Lincoln County's general fund was not revised. The general fund expenditure budget was \$33,784,225. Over the course of the year, our actual reported resources were more than budgeted by \$1,015,355. Our anticipated taxes and assessments for the general fund show a negative difference of \$29,234. Our investment earnings show a positive difference of \$524 from the budgeted amount. Appropriations for General Government show \$268,179 budgeted for expenditures that were not expended in this fiscal year. Overestimates in several departments contribute to this.

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**Capital Assets**

Lincoln County's investment in capital assets (depreciable, net) for its governmental and business type activities as of June 30, 2014 was \$10,289,570. This investment in capital assets includes land, significant road projects, construction in progress, buildings, machinery & equipment, and improvements other than buildings.

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

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 525,267	\$ -	\$ -	\$ 525,267
Construction in Progress	<u>116,766</u>	<u>-</u>	<u>-</u>	<u>116,766</u>
Total Capital Assets not being depreciated	\$ <u>642,033</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>642,033</u>
Other capital assets:				
Buildings	\$ 5,038,752	\$ -	\$ -	\$ 5,038,752
Improvements other than buildings	7,761,284	68,142	(6,088)	7,823,338
Machinery and equipment	11,542,096	144,468	(221,617)	11,464,947
Infrastructure	<u>1,894,082</u>	<u>-</u>	<u>-</u>	<u>1,894,082</u>
Total other capital assets at historical cost	\$ <u>26,236,214</u>	\$ <u>212,610</u>	\$ <u>(227,705)</u>	\$ <u>26,221,119</u>
Less accumulated depreciation:	\$ <u>(15,685,908)</u>	\$ <u>(1,089,909)</u>	\$ <u>202,235</u>	\$ <u>(16,573,582)</u>
Total	\$ <u>11,192,339</u>	\$ <u>(877,299)</u>	\$ <u>(25,470)</u>	\$ <u>10,289,570</u>

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

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ <u>850</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>850</u>
Other capital assets:				
Buildings	\$ 272,880	\$ -	\$ -	\$ 272,880
Improvements other than buildings	38,613	-	-	38,613
Machinery and equipment	<u>2,532,853</u>	<u>199,091</u>	<u>(120,494)</u>	<u>2,611,450</u>
Total other capital assets at historical cost	\$ <u>2,844,346</u>	\$ <u>199,091</u>	\$ <u>(120,494)</u>	\$ <u>2,922,943</u>
Less accumulated depreciation:	\$ <u>(1,487,672)</u>	\$ <u>(155,946)</u>	\$ <u>8,164</u>	\$ <u>(1,635,454)</u>
Total	\$ <u>1,357,524</u>	\$ <u>43,145</u>	\$ <u>(112,330)</u>	\$ <u>1,288,339</u>

**Long-term debt**

As of June 30, 2014, the only debt held by the County were the amounts recorded below for compensated absences and Landfill Closure and Post closure.

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ <u>631,495</u>	\$ <u>4,069</u>	\$ <u>635,564</u>	\$ <u>436,443</u>

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

LINCOLN COUNTY, MONTANA  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Balance			Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Landfill Closure/Post closure	\$ 873,361	\$ 32,711	\$ -	\$ 906,072	\$ -
Compensated absences	<u>98,290</u>	<u>-</u>	<u>(5,507)</u>	<u>92,783</u>	<u>71,656</u>
Total	<u>\$ 971,651</u>	<u>\$ 32,711</u>	<u>\$ (5,507)</u>	<u>\$ 998,855</u>	<u>\$ 71,656</u>

**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 Lincoln County, the Board is able to allocate resources and establish priorities.

As a whole, Lincoln County is in a strong financial position considering the economic situation in Lincoln County. The re-authorization of the Secure Rural Schools and Communities Act has helped stabilize funding for the Road Fund, albeit a temporary fix for a complicated problem.

Several problems have played a role in the economic future of our county including:

- High unemployment due to decreased timber harvest and other natural resourced based jobs and national economic problems.
- The designation of the Libby/Troy area as an EPA Superfund site due to asbestos contamination by the former W.R. Grace mine.
- Montanore Mine is slow to start due to environmental issues.
- Interest rates continue to be at an all-time low.
- ASARCO mine was closed down due to a landslide.

Although these problems will take several years to overcome, there are signs of an improving economy such as:

- The former ASARCO mine near Troy has re-opened which will help the taxable value of the County and offer employment to our residents.
- The EPA has committed to cleaning up the asbestos contamination as funding is available.
- Many community groups are working to improve the economic situation in the County. The Stimson mill property was donated to the County-formed Port Authority. The Port Authority is actively pursuing industrial businesses to occupy this property.

Overall, we feel hopeful about the County’s finances and overall economy. Even though we have experienced many negative financial impacts within our area, we do see a light at the end of the tunnel as we begin the recovery process, with our goal being a stable economy and steadfast revenues.

***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  
Lincoln County  
Libby, 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 Lincoln County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the County's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Emphasis of Matter**

As discussed in note 16 to the financial statements, Lincoln County no longer reports the Lincoln County Port Authority's as a blended component unit. As such the beginning fund balance as shown on the statement of activities has been restated.

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2014, Lincoln County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information, on pages 2 through 8, and 46 through 51 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015, on our consideration of the Lincoln 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 Lincoln County, Montana's internal control over financial reporting and compliance.

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

March 30, 2015

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 23,064,921	\$ 2,519,090	\$ 25,584,011
Taxes and assessments receivable, net	421,695	-	421,695
Special assessments receivable	-	277,249	277,249
Notes and loans receivable	199,771	-	199,771
Due from other governments	228,429	-	228,429
Total current assets	<u>\$ 23,914,816</u>	<u>\$ 2,796,339</u>	<u>\$ 26,711,155</u>
Noncurrent assets			
Restricted cash and investments	\$ -	\$ 901,419	\$ 901,419
Capital assets - land	525,267	850	526,117
Capital assets - construction in progress	116,766	-	116,766
Capital assets - depreciable, net	9,647,537	1,287,489	10,935,026
Total noncurrent assets	<u>\$ 10,289,570</u>	<u>\$ 2,189,758</u>	<u>\$ 12,479,328</u>
Total assets	<u>\$ 34,204,386</u>	<u>\$ 4,986,097</u>	<u>\$ 39,190,483</u>
<b>LIABILITIES</b>			
Current liabilities			
Warrants payable	\$ 3,176	\$ -	\$ 3,176
Accounts payable	165,264	827	166,091
Accrued payroll	239,665	27,968	267,633
Current portion of compensated absences payable	436,443	71,656	508,099
Deferred inflows of resources	297,823	-	297,823
Total current liabilities	<u>\$ 1,142,371</u>	<u>\$ 100,451</u>	<u>\$ 1,242,822</u>
Noncurrent liabilities			
Landfill closure postclosure liability	\$ -	\$ 906,072	\$ 906,072
Noncurrent portion of compensated absences	199,121	21,127	220,248
Total noncurrent liabilities	<u>\$ 199,121</u>	<u>\$ 927,199</u>	<u>\$ 1,126,320</u>
Total liabilities	<u>\$ 1,341,492</u>	<u>\$ 1,027,650</u>	<u>\$ 2,369,142</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,289,570	\$ 1,288,339	\$ 11,577,909
Restricted for general government	1,591,790	-	1,591,790
Restricted for public safety	1,358,449	-	1,358,449
Restricted for public works	15,451,547	-	15,451,547
Restricted for public health	352,652	-	352,652
Restricted for social and economic services	30,472	-	30,472
Restricted for culture and recreation	188,450	-	188,450
Restricted for housing and community development	715,933	-	715,933
Restricted for conservation of natural resources	21,348	-	21,348
Unrestricted	2,862,683	2,670,108	5,532,791
Total net position	<u>\$ 32,862,894</u>	<u>\$ 3,958,447</u>	<u>\$ 36,821,341</u>

See accompanying Notes to the Financial Statements

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

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
			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	\$ 5,470,032	\$ (1,510,971)	\$ 91,050	\$ 439,770	\$ -	\$ (3,428,241)	\$ -	\$ (3,428,241)
Public safety	3,895,104	515,911	400,595	354,671	76,347	(3,579,402)	-	(3,579,402)
Public works	3,872,474	764,536	135,493	3,239,305	151,768	(1,110,444)	-	(1,110,444)
Public health	815,068	-	309,639	480,858	-	(24,571)	-	(24,571)
Social and economic services	132,007	-	12,803	4,962	-	(114,242)	-	(114,242)
Culture and recreation	673,478	-	10,673	-	-	(662,805)	-	(662,805)
Housing and community development	225,692	-	-	184,000	-	(41,692)	-	(41,692)
Conservation of natural resources	17,927	-	-	-	-	(17,927)	-	(17,927)
Debt service - interest	1,104	-	-	-	-	(1,104)	-	(1,104)
Miscellaneous	138,934	-	-	-	-	(138,934)	-	(138,934)
Total governmental activities	\$ 15,241,820	\$ (230,524)	\$ 960,253	\$ 4,703,566	\$ 228,115	\$ (9,119,362)	\$ -	\$ (9,119,362)
Business-type activities:								
Solid Waste	\$ 1,210,548	\$ 230,524	\$ 1,819,623	\$ -	\$ 151,111	\$ -	\$ 529,662	\$ 529,662
Total primary government	\$ 16,452,368	\$ -	\$ 2,779,876	\$ 4,703,566	\$ 379,226	\$ (9,119,362)	\$ 529,662	\$ (8,589,700)
General Revenues:								
Property taxes for general purposes					\$ 6,285,156	\$ -	\$ 6,285,156	
Miscellaneous					139,789	2,500	142,289	
Interest/investment earnings					328,077	9,050	337,127	
PILT					628,135	-	628,135	
State entitlement					791,939	-	791,939	
Grants and entitlements not restricted to specific programs					58,706	-	58,706	
Licenses and permits					16,904	-	16,904	
Contributions & donations					8,906	-	8,906	
Gain (loss) on retirement of capital assets					-	-	-	
Transfers - net					248,179	(248,179)	-	
Total general revenues, special items and transfers					\$ 8,505,791	\$ (236,629)	\$ 8,269,162	
Change in net position					\$ (613,571)	\$ 293,033	\$ (320,538)	
Net position - beginning					\$ 44,459,591	\$ 3,777,744	\$ 48,237,335	
Restatements					(10,983,126)	-	(10,983,126)	
Net position - beginning - restated					\$ 33,476,465	\$ 3,777,744	\$ 37,254,209	
Net position - end					\$ 32,862,894	\$ 4,070,777	\$ 36,933,671	

See accompanying Notes to the Financial Statements



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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Grizzly Bear Study</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 3,546,526	\$ 15,373,016	\$ 893,602	\$ -	\$ 323,126	\$ 2,928,651	\$ 23,064,921
Taxes and assessments receivable, net	51,307	-	220,685	-	-	149,703	421,695
Notes and loans receivable	199,771	-	-	-	-	-	199,771
Due from other funds	378,672	-	-	-	-	-	378,672
Due from other governments	20,139	-	35,044	-	-	173,246	228,429
Total current assets	<u>\$ 4,196,415</u>	<u>\$ 15,373,016</u>	<u>\$ 1,149,331</u>	<u>\$ -</u>	<u>\$ 323,126</u>	<u>\$ 3,251,600</u>	<u>\$ 24,293,488</u>
Noncurrent assets:							
Advances to other funds	\$ 10,347	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,347
Total assets	<u>\$ 4,206,762</u>	<u>\$ 15,373,016</u>	<u>\$ 1,149,331</u>	<u>\$ -</u>	<u>\$ 323,126</u>	<u>\$ 3,251,600</u>	<u>\$ 24,303,835</u>
Current liabilities:							
Warrants payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,176	\$ 3,176
Accounts payable	7,996	130,842	7,816	-	1,227	17,383	165,264
Accrued payroll	79,295	42,538	69,986	-	6,744	41,102	239,665
Due to other funds	-	-	-	308,465	-	70,207	378,672
Total current liabilities	<u>\$ 87,291</u>	<u>\$ 173,380</u>	<u>\$ 77,802</u>	<u>\$ 308,465</u>	<u>\$ 7,971</u>	<u>\$ 131,868</u>	<u>\$ 786,777</u>
Noncurrent liabilities:							
Advances payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,347	\$ 10,347
Total liabilities	<u>\$ 87,291</u>	<u>\$ 173,380</u>	<u>\$ 77,802</u>	<u>\$ 308,465</u>	<u>\$ 7,971</u>	<u>\$ 142,215</u>	<u>\$ 797,124</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows of resources	\$ 51,307	\$ -	\$ 220,685	\$ -	\$ 292,709	\$ 154,817	\$ 719,518
<b>FUND BALANCES</b>							
Restricted	\$ -	\$ 15,199,636	\$ 850,844	\$ -	\$ 22,446	\$ 2,723,603	\$ 18,796,529
Committed	-	-	-	-	-	253,712	253,712
Unassigned fund balance	4,068,164	-	-	(308,465)	-	(22,747)	3,736,952
Total fund balance	<u>\$ 4,068,164</u>	<u>\$ 15,199,636</u>	<u>\$ 850,844</u>	<u>\$ (308,465)</u>	<u>\$ 22,446</u>	<u>\$ 2,954,568</u>	<u>\$ 22,787,193</u>

See accompanying Notes to the Financial Statements

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

<b>Total fund balances - governmental funds</b>	\$ 22,787,193
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,289,570
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.	421,695
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(635,564)
<b>Total net position - governmental activities</b>	<u>\$ 32,862,894</u>

See accompanying Notes to the Financial Statements

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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Grizzly Bear Study</u>	<u>Asbestos Resource Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Taxes and assessments	\$ 772,314	\$ 685,071	\$ 2,980,204	\$ -	\$ -	\$ 1,973,851	\$ 6,411,440
Licenses and permits	30,150	-	-	-	-	-	30,150
Intergovernmental	1,287,884	2,969,722	304,516	-	240,949	1,172,930	5,976,001
Charges for services	215,624	61,000	467,331	-	-	152,192	896,147
Fines and forfeitures	113,301	-	-	-	-	31,162	144,463
Miscellaneous	35,754	7,469	13,185	313,358	-	119,786	489,552
Investment earnings	28,118	290,543	-	-	-	9,416	328,077
Total revenues	<u>\$ 2,483,145</u>	<u>\$ 4,013,805</u>	<u>\$ 3,765,236</u>	<u>\$ 313,358</u>	<u>\$ 240,949</u>	<u>\$ 3,459,337</u>	<u>\$ 14,275,830</u>
<b>EXPENDITURES</b>							
General government	\$ 2,891,677	\$ -	\$ -	\$ -	\$ -	\$ 1,040,998	\$ 3,932,675
Public safety	541,309	-	2,722,841	-	-	995,695	4,259,845
Public works	19,135	3,014,137	-	-	-	778,794	3,812,066
Public health	300,356	-	-	-	240,930	269,323	810,609
Social and economic services	2,255	-	-	-	-	129,752	132,007
Culture and recreation	-	-	-	-	-	586,459	586,459
Housing and community development	-	-	-	-	-	225,692	225,692
Conservation of natural resources	-	-	-	11,775	-	6,152	17,927
Debt service - interest	-	-	-	-	-	1,104	1,104
Miscellaneous	-	-	-	-	-	113,464	113,464
Capital outlay	63,108	43,828	73,946	-	-	31,728	212,610
Total expenditures	<u>\$ 3,817,840</u>	<u>\$ 3,057,965</u>	<u>\$ 2,796,787</u>	<u>\$ 11,775</u>	<u>\$ 240,930</u>	<u>\$ 4,179,161</u>	<u>\$ 14,104,458</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,334,695)</u>	<u>\$ 955,840</u>	<u>\$ 968,449</u>	<u>\$ 301,583</u>	<u>\$ 19</u>	<u>\$ (719,824)</u>	<u>\$ 171,372</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	\$ 2,111,564	\$ 45,000	\$ 20,000	\$ -	\$ -	\$ 1,726,820	\$ 3,903,384
Transfers out	(140,713)	(1,008,181)	(1,445,673)	-	(15,540)	(1,045,098)	(3,655,205)
Total other financing sources (uses)	<u>\$ 1,970,851</u>	<u>\$ (963,181)</u>	<u>\$ (1,425,673)</u>	<u>\$ -</u>	<u>\$ (15,540)</u>	<u>\$ 681,722</u>	<u>\$ 248,179</u>
Net Change in Fund Balance	<u>\$ 636,156</u>	<u>\$ (7,341)</u>	<u>\$ (457,224)</u>	<u>\$ 301,583</u>	<u>\$ (15,521)</u>	<u>\$ (38,102)</u>	<u>\$ 419,551</u>
Fund balances - beginning	\$ 3,432,008	\$ 15,206,977	\$ 1,238,828	\$ (610,048)	\$ 37,967	\$ 3,436,161	\$ 22,741,893
Restatements	-	-	69,240	-	-	(443,491)	(374,251)
Fund balances - beginning, restated	<u>\$ 3,432,008</u>	<u>\$ 15,206,977</u>	<u>\$ 1,308,068</u>	<u>\$ (610,048)</u>	<u>\$ 37,967</u>	<u>\$ 2,992,670</u>	<u>\$ 22,367,642</u>
Fund balance - ending	<u>\$ 4,068,164</u>	<u>\$ 15,199,636</u>	<u>\$ 850,844</u>	<u>\$ (308,465)</u>	<u>\$ 22,446</u>	<u>\$ 2,954,568</u>	<u>\$ 22,787,193</u>

See accompanying Notes to the Financial Statements

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

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

<b>Net change in fund balances - total governmental funds</b>	\$	419,551
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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		212,610
- Depreciation expense		(1,089,909)

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

- Gain on the sale of capital assets		(25,470)
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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)		(126,284)
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The change in compensated absences is shown as an expense in the Statement of Activities

(4,069)

<b>Change in net position - Statement of Activities</b>	\$	<u><u>(613,571)</u></u>
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See accompanying Notes to the Financial Statements

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

		<u><b>Business-Type Activities - Enterprise Funds</b></u>
		<u><b>Solid Waste</b></u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$	2,519,090
Special assessments receivable		277,249
Total current assets	\$	<u>2,796,339</u>
Noncurrent assets:		
Restricted cash and investments	\$	901,419
Capital assets - land		850
Capital assets - depreciable, net		1,287,489
Total noncurrent assets	\$	<u>2,189,758</u>
Total assets	\$	<u><u>4,986,097</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$	827
Accrued payroll		27,968
Current portion of compensated absences payable		71,656
Total current liabilities	\$	<u>100,451</u>
Noncurrent liabilities:		
Landfill closure postclosure liability	\$	906,072
Noncurrent portion of compensated absences		21,127
Total noncurrent liabilities	\$	<u>927,199</u>
Total liabilities	\$	<u><u>1,027,650</u></u>
<b>NET POSITION</b>		
Net investment in capital assets	\$	1,288,339
Unrestricted		2,670,108
Total net position	\$	<u>3,958,447</u>
Total liabilities and net position	\$	<u><u>4,986,097</u></u>

See accompanying Notes to the Financial Statements

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

		<b>Business-Type Activities - Enterprise Funds</b>
		<u>Solid Waste</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$	180,202
Miscellaneous revenues		2,500
Special assessments		1,639,421
Total operating revenues	\$	<u>1,822,123</u>
<b>OPERATING EXPENSES</b>		
Personal services	\$	751,677
Supplies		371,790
Purchased services		161,659
Depreciation		155,946
Total operating expenses	\$	<u>1,441,072</u>
Operating income (loss)	\$	<u>381,051</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	\$	151,111
Interest revenue		9,050
Gain (loss) on sale of capital assets		(112,330)
Total non-operating revenues (expenses)	\$	<u>47,831</u>
Income (loss) before contributions and transfers	\$	428,882
Transfers in		139,891
Transfers out		(388,070)
Change in net position	\$	<u>180,703</u>
Net Position - Beginning of the year	\$	3,777,744
Net Position - End of the year	\$	<u>3,958,447</u>

See accompanying Notes to the Financial Statements

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

	<b>Business - Type Activities -</b>
	<b>Enterprise Fund</b>
	<b>Solid Waste</b>
<b>Cash flows from operating activities:</b>	
Cash received from providing services	\$ 1,854,280
Cash received from miscellaneous sources	2,500
Cash payments to suppliers	(408,273)
Cash payments for professional services	(128,948)
Cash payments to employees	(759,946)
Net cash provided (used) by operating activities	\$ 559,613
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	\$ (199,091)
Net cash provided (used) by capital and related financing activities	\$ (199,091)
<b>Cash flows from non-capital financing activities:</b>	
Intergovernmental revenue	\$ 151,111
Transfer of cash in and out between funds	(248,179)
Net cash provided (used) from non-capital financing activities	\$ (97,068)
<b>Cash flows from investing activities:</b>	
Interest on investments	\$ 9,050
Net cash provided (used) by investing activities	\$ 9,050
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 272,504
<b>Cash and cash equivalents at beginning</b>	3,148,005
<b>Cash and cash equivalents at end</b>	\$ 3,420,509
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 381,051
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	155,946
Other post-employment benefits	-
Changes in assets and liabilities:	
Increase in landfill closure/post-closure liability	32,711
Decrease in accounts payable	(36,483)
Decrease in compensated absence liability	(5,507)
Decrease in taxes receivable	34,657
Decrease in accrued payables	(2,762)
Net cash provided (used) by operating activities	\$ 559,613

See accompanying notes to the financial statements

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

	<u>Investment Trust Funds</u>		<u>Agency Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 11,432,779	\$	2,435,095
Taxes receivable	-		1,183,637
Total assets	<u>\$ 11,432,779</u>	\$	<u>3,618,732</u>
<b>LIABILITIES</b>			
Warrants payable	\$ -	\$	1,187,114
Due to others	-		2,431,618
Total liabilities	<u>\$ -</u>	\$	<u>3,618,732</u>
<b>NET POSITION</b>			
Assets held in trust	<u>\$ 11,432,779</u>		

See accompanying Notes to the Financial Statements



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

		<b>Investment Trust Funds</b>
<b>ADDITIONS</b>		
Contributions:		
Contributions to Investment Trust Fund	\$	8,054,598
Investment earnings:		
Interest and change in fair value of investments	\$	33,276
Total additions	\$	<u>8,087,874</u>
 <b>DEDUCTIONS</b>		
Distributions from investment trust fund	\$	<u>6,595,233</u>
Total deductions	\$	<u>6,595,233</u>
Change in net position	\$	<u>1,492,641</u>
Net Position - Beginning of the year	\$	9,940,138
Net Position - End of the year	\$	<u><u>11,432,779</u></u>

See accompanying Notes to the Financial Statements

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

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

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

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

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

**Financial Reporting Entity**

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

*Change In Reporting Entity*

Lincoln County no longer reports the Lincoln County Port Authority as a component unit on its financial statements. The reason for the change in fiscal year June 30, 2014 is due to the implementation of GASB statement No. 61 relating to *The Financial Reporting Entity: Omnibus*. A financial benefit/burden relationship no longer exists between Lincoln County and the Lincoln County Port Authority.

*Primary Government*

The County is a political subdivision of the State of Montana governed by an elected three-member Board of 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.

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

*Related Organizations*

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

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

The Friends of the Library and the Library Foundation are considered related organizations of the County. The Friends of the Library focuses public attention on the library, stimulate the use of the library's resources and services, receives and encourages gifts, endowments and bequests to the library, and supports and cooperates with the library in developing library services and facilities. the Library Foundation provides fundraising support for the benefit of all three libraries. The areas of fundraising include endowments, memorials and tax-deferred gifts. The County Library Board are responsible for employing the library director, determining policies and purposes of the library, submitting and annual budget, securing adequate funds and working to ensure that the library is able to offer comprehensive and effective service to the community.

**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 in the consolidation of business-type activities.

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

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 charges 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.

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

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

**Fund Financial Statements:**

*Basis of Presentation*

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

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

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

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

Modified Accrual

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

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

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

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

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/Law Enforcement 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.

*Asbestos Resource Program* – A special revenue fund established to account for asbestos related grant revenues.

*Grizzly Bear Study* – A special revenue fund established to account for revenues and expenditures related to the County's Grizzly Bear Study.

***Proprietary Funds:***

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

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

Major Funds:

The County reports the following major proprietary funds:

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

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

***Fiduciary Funds***

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

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

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

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

**Cash Composition**

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

	<u>Primary Government</u>
<u>Cash on hand and deposits:</u>	
Cash on hand	\$ 2,400
Cash in banks:	
Demand deposits	104,358
Savings deposits	24,481,237
Time deposits	2,900,318
<u>Investments:</u>	
State Short-Term Investment Pool (STIP)	41,221
U.S. Treasury Bills	92,266
U.S. Government Securities	12,731,504
Total	\$ 40,353,304

**Credit Risk**

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

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

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

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

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

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

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

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

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 investment policy that would further limit its investment choices.

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2014:

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable-Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable -Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
 Total Investments	 <u>\$ 2,535,153,167</u>	 A1	 <u>43</u>
 Securities Lending Collateral Investment Pool	 <u>\$ 1,861,748</u>	 NR	 *



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

“\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.”

Audited financial statements for the State of Montana’s Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

**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. All deposits are carried at cost plus accrued interest. As of June 30, 2014 the government’s bank balance was exposed to custodial credit risk as follows:

	June 30, 2014 <u>Balance</u>
<u>Depository Account</u>	
Insured	\$ 602,606
- Collateral held by the pledging bank's trust department but not in the County's name.	13,813,880
- Uninsured and uncollateralized	<u>10,046,624</u>
Total deposits and investments	<u><u>\$ 24,463,110</u></u>

Deposit Security

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

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

The amount of collateral held for County deposits at June 30, 2014, did not meet the amount required by State statutes.

**Interest Rate Risk**

The government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of individual investments as of June 30, 2014 alone with their related interest rates and maturity dates.

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

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal Farm Credit Banks Debenture	1.25%	6/4/2018	\$ 119,083
Federal Farm Credit Banks Debenture	1.90%	10/10/2014	100,379
Federal National Mortgage Association	0.85%	7/10/2017	1,003,298
Federal National Mortgage Association	0.50%	7/25/2017	999,486
Federal Home Loan Banks Debenture	1.10%	7/6/2014	996,243
Federal National Mortgage Association	1.15%	8/28/2018	249,718
Federal National Mortgage Association	1.125%	3/12/2018	999,818
Federal National Mortgage Association	1.05%	3/27/2018	247,665
Federal National Mortgage Association	1.125%	3/28/2018	251,228
Federal National Mortgage Association	1.06%	4/10/2018	247,367
Federal National Mortgage Association	1.10%	4/17/2018	247,932
Federal Home Loan Mortgage Corporation	1.15%	4/25/2018	1,986,008
Federal Home Loan Mortgage Corporation	1.05%	4/30/2018	987,349
Federal Home Loan Mortgage Corporation	1.20%	6/12/2018	1,246,270
Federal Home Loan Banks Debenture	1.83%	2/25/2019	502,897
Federal Home Loan Banks Debenture	1.75%	3/14/2019	1,002,697
Federal Home Loan Banks Debenture	1.83%	3/26/2019	240,036
Federal Home Loan Banks Debenture	1.00%	4/16/2019	498,420
U.S. Treasury Notes	1.625%	3/31/2019	39,113
Federal Home Loan Bank Notes	2.75%	3/13/2015	50,908
Federal Home Loan Bank Notes	1.75%	9/11/2015	61,090
Federal Farm Credit Bank Notes	0.68%	12/27/2016	29,959
Federal Home Loan Mortgage Corporation Notes	1.00%	7/28/2017	30,018
Federal Home Loan Bank Notes	1.00%	9/27/2017	39,874
Federal National Mortgage Association Notes	1.15%	2/28/2018	57,708
Federal National Mortgage Association Notes	1.125%	3/28/2018	60,122
Federal Farm Credit Bank Notes	1.00%	4/11/2018	3,972
Federal National Mortgage Association Notes	1.625%	11/27/2018	24,128
U.S. Treasury Notes	1.625%	3/31/2019	53,153
Federal Home Loan Bank Notes	2.75%	3/13/2015	111,996
Federal Home Loan Bank Notes	1.75%	9/11/2015	55,999
Federal National Mortgage Association Notes	1.25%	9/28/2016	5,073
Federal Farm Credit Bank Notes	0.68%	12/27/2016	54,925
Federal Home Loan Bank Notes	1.00%	9/27/2017	44,858
Federal National Mortgage Association Notes	1.15%	2/28/2018	24,874
Federal National Mortgage Association Notes	1.125%	3/28/2018	50,102
Federal Farm Credit Bank Notes	1.00%	4/11/2018	11,917
Federal Farm Credit Bank Notes	1.50%	6/11/2018	65,010
Federal National Mortgage Association Notes	1.90%	3/27/2019	23,077
			<u>\$ 12,823,770</u>

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

**Cash and Investment Pool**

The government maintains a cash and investment pool that is available for use by all funds, except the Road fund. 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 Road 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. There are two types of investment trust funds reported by the County, pooled and individually directed investment trust funds.

The County has a pooled investment trust fund, invested in an interest bearing savings account. The pooled funds are carried at fair value.

The County invests funds for one external entity. These investments are reported in an individually directed investment trust fund. The investments are U.S. Government Securities and carried at fair value

Non-pooled investments are also carried at fair value. The fair value of non-pooled investments is determined annually and is based on current market prices.

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

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

**Investment Income**

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

**Condensed statements of investments pools**

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

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

**Statement of Net Assets**

Net assets held in trust for all pool participants:	
Equity of internal pool participants	\$ 12,493,681
Equity of external pool participants	11,432,779
Total equity	<u>\$ 23,926,460</u>

**Condensed Statement of Changes in Net Assets**

	<u>External</u>	<u>Internal</u>
Investment earnings	\$ 33,276	\$ 30,306
Contributions to trust	8,054,598	8,602,005
Distributions paid	(6,595,233)	(7,919,559)
Net change in net assets	<u>\$ 1,492,641</u>	<u>\$ 712,752</u>
Net assets at beginning of year	9,940,138	11,780,929
Net assets at end of year	<u>\$ 11,432,779</u>	<u>\$ 12,493,681</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. RESTRICTED CASH/INVESTMENTS**

The following restricted cash/investments were held by the County as of June 30, 2014. These amounts are reported within the cash/investment account on the Statement of Net Assets.

<u>Description</u>	<u>Amount</u>
Landfill Closure costs	\$ 398,519
Landfill Post-closure costs	<u>502,900</u>
	<u>\$ 901,419</u>

**NOTE 4. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, in connection with the budget process and are based on taxable values listed as of January 1 for all property located in the Entity. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

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

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

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

**NOTE 5. INVENTORIES**

The cost of inventories are recorded as an expenditure when purchased.

**NOTE 6. 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	10 – 20 years	
Improvements	5 – 15 years	
Equipment	5 – 60 years	
Infrastructure	10 – 40 years	Overlay 20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the County has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

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

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

Governmental activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 525,267	\$ -	\$ -	\$ 525,267
Construction in progress	116,766	-	-	116,766
Total capital assets not being depreciated	<u>\$ 642,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,033</u>
Other capital assets:				
Buildings	\$ 5,038,752	\$ -	\$ -	\$ 5,038,752
Improvements other than buildings	7,761,284	68,142	(6,088)	7,823,338
Machinery and equipment	11,542,096	144,468	(221,617)	11,464,947
Infrastructure	1,894,082	-	-	1,894,082
Total other capital assets at historical cost	<u>\$ 26,236,214</u>	<u>\$ 212,610</u>	<u>\$ (227,705)</u>	<u>\$ 26,221,119</u>
Less: accumulated depreciation	<u>\$ (15,685,908)</u>	<u>\$ (1,089,909)</u>	<u>\$ 202,235</u>	<u>\$ (16,573,582)</u>
Total	<u><u>\$ 11,192,339</u></u>	<u><u>\$ (877,299)</u></u>	<u><u>\$ (25,470)</u></u>	<u><u>\$ 10,289,570</u></u>

Governmental activities depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 22,317
Public safety	151,170
Public works	824,944
Public health	4,459
Culture and recreation	<u>87,019</u>
Total governmental activities depreciation expense	<u><u>\$ 1,089,909</u></u>

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

Business-type activities:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 850	\$ -	\$ -	\$ 850
Other capital assets:				
Buildings	\$ 272,880	\$ -	\$ -	\$ 272,880
Improvements other than buildings	38,613	-	-	38,613
Machinery and equipment	2,532,853	199,091	(120,494)	2,611,450
Total other capital assets at historical cost	<u>\$ 2,844,346</u>	<u>\$ 199,091</u>	<u>\$ (120,494)</u>	<u>\$ 2,922,943</u>
Less: accumulated depreciation	<u>\$ (1,487,672)</u>	<u>\$ (155,946)</u>	<u>\$ 8,164</u>	<u>\$ (1,635,454)</u>
Total	<u><u>\$ 1,357,524</u></u>	<u><u>\$ 43,145</u></u>	<u><u>\$ (112,330)</u></u>	<u><u>\$ 1,288,339</u></u>

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

**NOTE 7. LONG TERM DEBT OBLIGATIONS**

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

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

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

Governmental Activities:

	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2013</u>	<u>                  </u>	<u>June 30, 2014</u>	<u>One Year</u>
Compensated absences	\$ 631,495	\$ 4,069	\$ 635,564	\$ 436,443

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

Business-type Activities:

	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2013</u>	<u>                  </u>	<u>                  </u>	<u>June 30, 2014</u>	<u>One Year</u>
Compensated absences	\$ 98,290	\$ -	\$ (5,507)	\$ 92,783	\$ 71,656
Landfill Closure/Postclosure*	873,361	32,711	-	906,072	-
Total	<u>\$ 971,651</u>	<u>\$ 32,711</u>	<u>\$ (5,507)</u>	<u>\$ 998,855</u>	<u>\$ 71,656</u>

\*See Note 8

**Compensated Absences**

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. 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.

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

**NOTE 8. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that Lincoln County place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and postclosure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date. The \$906,072 reported as landfill closure and postclosure liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 84% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$172,608 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure in 2014. The County expects to close the landfill in the year 2022. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and postclosure care costs. For the fiscal year ended June 30, 2014, Lincoln County demonstrated its ability to handle closure and postclosure care costs by creating a trust fund. The trust fund cash balance total is \$901,419.

**NOTE 9. INTERFUND RECEIVABLES AND PAYABLES**

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

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
To remove negative cash balance	General – Major Governmental	Public Health Preparedness – Nonmajor Governmental	\$ 1,447
To remove negative cash balance	General – Major Governmental	Grizzly Bear Study – Major Governmental	308,465
To remove negative cash balance	General – Major Governmental	SAMHSA – Nonmajor Governmental	25,469
To remove negative cash balance	General – Major Governmental	ISTEA – Nonmajor Governmental	38,066
To remove negative cash balance	General – Major Governmental	WIC – Nonmajor Governmental	5,225
			<u>\$ 378,672</u>



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

Advances to/from other funds:			
<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Elevator repairs	Senior Citizen – Nonmajor Governmental	PILT – Major Governmental	\$ 6,333
2012 Ford pickup	Search and Rescue – Nonmajor Governmental	PILT – Major Governmental	4,014
			<u>\$ 10,347</u>

**Interfund Transfers**

The following is an analysis of operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Operating transfer	Solid Waste – Major Proprietary	General – Major Governmental	\$ 139,893
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Road – Major Governmental	243,645
Residual equity transfer	General – Major Governmental	Indigency Services – Nonmajor Governmental	125
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Noxious Weeds – Nonmajor Governmental	8,879
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Fair – Nonmajor Governmental	2,647
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	District Court – Nonmajor Governmental	37,304
Residual equity transfer	General – Major Governmental	Libby Park – Arena – Nonmajor Governmental	1
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Library – Nonmajor Governmental	38,149
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	County Planning – Nonmajor Governmental	8,850
Residual equity transfer	General – Major Governmental	Health Fuel Study – Nonmajor Governmental	213
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Public Health Preparation – Nonmajor Governmental	4,790

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

Over allocation of health care costs	Road – Major Governmental	Group Health Insurance – Nonmajor Governmental	45,000
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Permissive Medical – Nonmajor Governmental	400,000
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Permissive Medical – Nonmajor Governmental	311,025
Residual equity transfer	General – Major Governmental	Drug Forfeiture – Nonmajor Governmental	2,127
Operating transfer	Public Safety – Nonmajor Governmental	Sheriff Charges – Nonmajor Governmental	20,000
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Junk Vehicle – Nonmajor Governmental	1,246
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Noxious Weed Grant – Nonmajor Governmental	4,440
Project reviews and proposals	County Planning – Nonmajor Governmental	Metal Mines – Nonmajor Governmental	32,855
Project reviews and proposals	County Planning – Nonmajor Governmental	Title III After 2008 – Nonmajor Governmental	25,000
Residual equity transfer	General – Major Governmental	Forest Reserve – Nonmajor Governmental	134
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Crime Victims – Nonmajor Governmental	7,984
Indirect cost allocation plan	General – Major Governmental	Crime Victims – Nonmajor Governmental	4,000
Residual equity transfer	General – Major Governmental	Law Enforcement – Nonmajor Governmental	47
Operating transfer	CDBG Planning – Nonmajor Governmental	General – Major Governmental	354
Transfer to clear deficit fund balance and close account	Pre-Disaster Mitigation – Nonmajor Governmental	General – Major Governmental	309
Transfer to clear deficit fund balance and close account	General – Major Governmental	Department of Justice – Nonmajor Governmental	472

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

Health care cost allocation	Group Health Insurance – Nonmajor Governmental	WIC – Nonmajor Governmental	12,662
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Asbestos Resource – Major Governmental	15,540
Transfer to clear deficit fund balance and close account	General – Major Governmental	HRSA Funds – Nonmajor Governmental	77,034
Transfer to clear deficit fund balance and close account	Eureka ARRA – Nonmajor Governmental	General – Major Governmental	1
Transfer to clear deficit fund balance and close account	Weed Grant ARRA – Nonmajor Governmental	General – Major Governmental	157
Residual equity transfer	General – Major Governmental	ARRA Grant for Library – Nonmajor Governmental	101
Residual equity transfer	General – Major Governmental	Intercap Loan Outlay – Nonmajor Governmental	13
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Solid Waste – Major Proprietary	157,545
Reimbursement for overpayment of healthcare costs	General – Major Governmental	Public Safety – Nonmajor Governmental	516,324
Health care cost allocation	Group Health Insurance – Nonmajor Governmental	Public Safety – Nonmajor Governmental	413,438
Indirect cost allocation plan	General – Major Governmental	Road – Major Governmental	764,536
Indirect cost allocation plan	General – Major Governmental	Public Safety – Nonmajor Governmental	515,911
Indirect cost allocation plan	General – Major Governmental	Solid Waste – Major Proprietary	<u>230,524</u>
			<u>\$ 4,043,275</u>

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

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

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

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

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

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

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

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

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

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

	<u>PERS</u>	<u>SRS</u>
2012	\$ 295,897	\$ 132,174
2013	\$ 291,155	\$ 137,727
2014	\$ 335,803	\$ 140,626

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

**NOTE 12. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

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

**NOTE 13. 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.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Road	\$ 15,199,636	Public works
Public Safety	850,844	Public safety
Asbestos Resource Program	22,446	Public health
Remaining Aggregate Funds:		
	1,440,899	General government
	255,687	Public safety
	103,561	Public works
	36,915	Public health
	23,459	Social and economic services
	125,801	Culture and recreation
	715,933	Housing and community development
	<u>21,348</u>	Conservation of natural resources
	<u>\$ 18,796,529</u>	

**Committed Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Commitment</u>
Remaining Aggregate Funds:		
	\$ 86,926	General government
	140,676	Public works
	<u>26,110</u>	Culture and recreation
	<u>\$ 253,712</u>	

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

**NOTE 14. DEFICIT FUND BALANCES/NET POSITION**

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>
Fair	\$ 62	Expenditures exceeded revenues for the year
Senior Citizens	\$ 3,084	Prior year expenditures exceeded revenues
Grizzly Bear Study	\$ 308,465	Past expenditures exceeded contributions received
SAMHSA	\$ 4,070	Expenditures exceeded revenues for the year
CDBG Planning Grant	\$ 139	Expenditures exceeded revenues for the year
ISTEA	\$ 13,084	Prior year negative fund balance
MCH Grant	\$ 912	Expenditures exceeded revenues for the year
Clean Air Grant Starting 04-05	\$ 46	Expenditures exceeded revenues for the year

**NOTE 15. RESTATEMENTS**

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Port Authority	\$ ( 528,006)	Elimination of the Lincoln County Port Authority
ISTEA	62,917	Prior period revenue adjustment
MIECHV	21,598	Prior period revenue adjustment
Public Safety	69,240	Prior period revenue adjustment
Governmental	<u>(10,608,875)</u>	Elimination of Lincoln County Port Authority*
	<u>\$ ( 10,983,126)</u>	

\* See Note 1

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

Lincoln 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.

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

**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.

Insurance Pools:

County has joined with other Montana counties to form a self-insurance pool offering workers' compensation coverage. This pool, named the Montana Association of Counties Workers' Compensation Trust, has entered into an agreement with a private management firm 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 specific control over the budgeting and financing of the Trust's activities.

Separate audited financial statements are available from the Montana Association of Counties Workers' Compensation Trust.

The County has joined with 28 other Montana Counties to form a self-insurance pool offering liability and general insurance coverage. This pool, named the Montana Association of Counties Joint Powers Insurance Authority Trust, provides for property, liability, public officials errors and omissions, and crime coverage in the amount of \$50,000 each. The Trust also provides for additional coverage for the above areas through excess insurance lines for varying amounts. The Trust has entered into an agreement with a private insurance agency to provide claim administrative services. The Trust has also entered into an agreement with the Montana Association of Counties to provide general administrative services. The counties do not exercise control over the budgeting and financing of the Trust's activities.

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

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

**NOTE 18. PENDING LITIGATION**

The following is a list of litigation pending against the County and the amount of damages claimed by the Plaintiff.

<u>Case</u>	<u>Damages Requested</u>	<u>Potential of Loss</u>
<i>Robert G. Hubbard v. Justice of the Peace Jay C. Sheffield, Deputy County Attorney Joseph Cik, et. al.</i>	Not stated	Not stated
<i>Harry Richards and Billy Budd Sullivan v. Lincoln County, et. al.</i>	Not stated	Unlikely
<i>Solso et. al. v. Steed and Lincoln County</i>	Not stated	Not stated
<i>Kevin Kirkwood v. Lincoln County</i>	Not stated	Not stated

**NOTE 19. SUBSEQUENT EVENTS**

In January 2015, the payments were announced for the new fiscal year, and they do not include the additional funding from the Secure Rural Schools and Community Self-Determination Act (SRS). The SRS Act expired in September of 2014, and the program was not reauthorized for fiscal year 2015. With the SRS not being reauthorized the payments revert back to the pre-existing law under the 1908 Act that mandates the payments to states from receipts from national forests in each state. The amount of funding expected to be distributed to 41 States in 2015 is more than \$50,000,000, compared to over \$328,961,250 in 2014. The estimated amount to be distributed to the State of Montana in 2015 is only \$2,230,173. This significant decrease in funding will affect the County, as the majority of the revenues reported in the Road Fund in 2014 were from the Forest Service Payments. The estimated amount to be received by the County in the new fiscal year is \$471,261, which is then allocated to the Road Fund (2/3) and School Districts (1/3), and the amount received in 2014 was \$4,115,372. The County had anticipated this and has budgeted for a much lower figure in the Road Fund for FY 2015.



**REQUIRED SUPPLEMENTAL  
INFORMATION**

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

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 801,548	\$ 801,548	\$ 772,314	\$ (29,234)
Licenses and permits	15,000	15,000	30,150	15,150
Intergovernmental	639,991	639,991	659,749	19,758
Charges for services	207,855	207,855	215,624	7,769
Fines and forfeitures	106,736	106,736	113,301	6,565
Miscellaneous	12,100	12,100	33,427	21,327
Investment earnings	25,000	25,000	25,524	524
Internal services	1,138,068	1,138,068	-	(1,138,068)
Amounts available for appropriation	<u>\$ 2,946,298</u>	<u>\$ 2,946,298</u>	<u>\$ 1,850,089</u>	<u>\$ (1,096,209)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ 2,996,959	\$ 2,996,959	\$ 2,788,577	\$ 208,382
Public safety	258,214	258,214	228,595	29,619
Public works	24,000	24,000	19,135	4,865
Public health	360,159	360,159	300,356	59,803
Social and economic services	5,000	5,000	2,255	2,745
Conservation of natural resources	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	-	-	36,415	(36,415)
Total charges to appropriations	<u>\$ 3,644,332</u>	<u>\$ 3,644,332</u>	<u>\$ 3,375,333</u>	<u>\$ 268,999</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 2,111,564	\$ 2,111,564
Transfers out	(139,893)	(139,893)	(140,713)	(820)
Total other financing sources (uses)	<u>\$ (139,893)</u>	<u>\$ (139,893)</u>	<u>\$ 1,970,851</u>	<u>\$ 2,110,744</u>
Net change in fund balance			<u>\$ 445,607</u>	
Fund balance - beginning of the year			\$ 1,353,110	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 1,353,110</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 1,798,717</u></u>	

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

	<b>Road</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	\$ 585,000	\$ 585,000	\$ 685,071	\$ 100,071
Licenses and permits	-	-	-	-
Intergovernmental	721,433	721,433	2,969,722	2,248,289
Charges for services	87,000	87,000	61,000	(26,000)
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	7,469	7,469
Investment earnings	90,000	90,000	290,543	200,543
Internal services	-	-	-	-
Amounts available for appropriation	<u>\$ 1,483,433</u>	<u>\$ 1,483,433</u>	<u>\$ 4,013,805</u>	<u>\$ 2,530,372</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	3,196,824	3,196,824	3,014,137	182,687
Public health	-	-	-	-
Social and economic services	-	-	-	-
Conservation of natural resources	-	-	-	-
Miscellaneous	433,860	433,860	-	433,860
Capital outlay	-	-	43,828	(43,828)
Total charges to appropriations	<u>\$ 3,630,684</u>	<u>\$ 3,630,684</u>	<u>\$ 3,057,965</u>	<u>\$ 572,719</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
Transfers out	(243,645)	(243,645)	(1,008,181)	(764,536)
Total other financing sources (uses)	<u>\$ (198,645)</u>	<u>\$ (198,645)</u>	<u>\$ (963,181)</u>	<u>\$ (764,536)</u>
Net change in fund balance			<u>\$ (7,341)</u>	
Fund balance - beginning of the year			\$ 15,206,977	
Restatements			-	
Fund balance - beginning of the year - restated			<u>\$ 15,206,977</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 15,199,636</u></u>	

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

**Public Safety/Law Enforcement**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>	<b>WITH FINAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>(BUDGETARY</b>	<b>BUDGET</b>
<b>RESOURCES (INFLOWS):</b>			<b>BASIS) See Note A</b>	
Taxes and assessments	\$ 2,914,720	\$ 2,914,720	\$ 2,980,204	\$ 65,484
Licenses and permits	-	-	-	-
Intergovernmental	306,855	306,855	304,516	(2,339)
Charges for services	357,147	357,147	467,331	110,184
Fines and forfeitures	-	-	-	-
Miscellaneous	25,000	25,000	13,185	(11,815)
Investment earnings	-	-	-	-
Internal services	-	-	-	-
Amounts available for appropriation	<u>\$ 3,603,722</u>	<u>\$ 3,603,722</u>	<u>\$ 3,765,236</u>	<u>\$ 161,514</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	2,784,423	2,784,423	2,722,841	61,582
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Conservation of natural resources	-	-	-	-
Miscellaneous	845,694	845,694	-	845,694
Capital outlay	75,000	75,000	73,946	1,054
Total charges to appropriations	<u>\$ 3,705,117</u>	<u>\$ 3,705,117</u>	<u>\$ 2,796,787</u>	<u>\$ 908,330</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Transfers out	-	-	(1,445,673)	(1,445,673)
Total other financing sources (uses)	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ (1,425,673)</u>	<u>\$ (1,445,673)</u>
Net change in fund balance			<u>\$ (457,224)</u>	
Fund balance - beginning of the year			\$ 1,238,828	
Restatements			<u>69,240</u>	
Fund balance - beginning of the year - restated			<u>\$ 1,308,068</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 850,844</u></u>	

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

	<b>Grizzly Bear Study</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	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	623,048	623,048	313,358	(309,690)
Investment earnings	-	-	-	-
Internal services	-	-	-	-
Amounts available for appropriation	\$ 623,048	\$ 623,048	\$ 313,358	\$ (309,690)
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social and economic services	-	-	-	-
Conservation of natural resources	13,000	13,000	11,775	1,225
Miscellaneous	-	-	-	-
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 13,000	\$ 13,000	\$ 11,775	\$ 1,225
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ 301,583	
Fund balance - beginning of the year			\$ (610,048)	
Restatements			-	
Fund balance - beginning of the year - restated			\$ (610,048)	
<b>Fund balance - end of the year</b>			<b>\$ (308,465)</b>	

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

**Asbestos Resource Program**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u> <u>(BUDGETARY</u> <u>BASIS) See Note A</u>	
<b>RESOURCES (INFLOWS):</b>				
Taxes and assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	359,453	359,453	240,949	(118,504)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	-	-	-	-
Internal services	-	-	-	-
Amounts available for appropriation	<u>359,453</u>	<u>359,453</u>	<u>240,949</u>	<u>(118,504)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Public health	343,913	343,913	240,930	102,983
Social and economic services	-	-	-	-
Conservation of natural resources	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	89,993	89,993	-	89,993
Total charges to appropriations	<u>433,906</u>	<u>433,906</u>	<u>240,930</u>	<u>192,976</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(15,540)	(15,540)	(15,540)	-
Total other financing sources (uses)	<u>(15,540)</u>	<u>(15,540)</u>	<u>(15,540)</u>	<u>-</u>
Net change in fund balance			<u>(15,521)</u>	
Fund balance - beginning of the year			37,967	
Restatements			-	
Fund balance - beginning of the year - restated			<u>37,967</u>	
<b>Fund balance - end of the year</b>			<u>22,446</u>	

**Lincoln County, Montana**  
**Budgetary Comparison Schedule**  
**Budget-to-GAAP Reconciliation**  
**Fiscal year ended June 30, 2014**

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

	<u>General</u>	<u>Road</u>	<u>Public Safety/Law Enforcement</u>	<u>Grizzly Bear Study</u>	<u>Asbestos Resource Program</u>
<b>Sources/Inflows of resources</b>					
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,850,089	\$ 4,013,805	\$ 3,765,236	\$ 313,358	\$ 240,949
Combined funds (GASBS 54) revenues	633,056	-	-	-	
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,483,145</u>	<u>\$ 4,013,805</u>	<u>\$ 3,765,236</u>	<u>\$ 313,358</u>	<u>\$ 240,949</u>
<b>Uses/Outflows of resources</b>					
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,375,333	\$ 3,057,965	\$ 2,796,787	\$ 11,775	\$ 240,930
Combined funds (GASBS 54) expenditures	442,507	-	-	-	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,817,840</u>	<u>\$ 3,057,965</u>	<u>\$ 2,796,787</u>	<u>\$ 11,775</u>	<u>\$ 240,930</u>

# **SINGLE AUDIT SECTION**



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

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Federal Expenditure June 30, 2013</b>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	14-07-5-21-013-0	\$ 53,325
<i>Passed through Western Montana Area Agency on Aging Region 6:</i>			
Commodity Supplemental Food Program	10.565	14-027-21010-30	4,962
<i>Direct:</i>			
Schools and Roads - Grants to States	10.665	N/A	3,057,965
<i>Passed through Montana Department of Administration:</i>			
Schools and Roads - Grants to States	10.665	N/A	138,464
<b>Total U.S. Department of Agriculture</b>			<b>\$ 3,254,716</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Passed through Montana Department of Commerce:</i>			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-ED13-04	\$ 184,000
<b><u>U.S. Department of Justice</u></b>			
<i>Passed through Montana Board of Crime Control:</i>			
Crime Victims Assistance	16.575	13-V01-91468	\$ 35,403
<i>Passed through Flathead County:</i>			
Edward Bryne Memorial Justice Assistance Grant Program	16.738	12-G01-91562	139,786
<b>Total U.S. Department of Justice</b>			<b>\$ 175,189</b>
<b><u>U.S. Department of Transportation</u></b>			
<i>Passed through Helena Airports District Office:</i>			
Airport Improvement Program	20.106	3-30-0049-012-2013	\$ 151,768
<i>Passed through Montana Department of Transportation:</i>			
Highway Planning and Construction	20.205	UPN-6774	151,111
<b>Total U.S. Department of Transportation</b>			<b>\$ 302,879</b>
<b><u>U.S. Department of Environmental Protection Agency</u></b>			
<i>Passed through Montana Department of Environmental Quality:</i>			
Air Pollution Control Program Support	66.001	514005	\$ 31,757
<i>Direct:</i>			
Superfund State Political Subdivision and Indian Tribe Site Specific Cooperative Agreements	66.802	96803401	244,034
<b>Total U.S. Department of Environmental Protection Agency</b>			<b>\$ 275,791</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	15-07-6-11-030-0	\$ 41,166
Immunization Cooperative Agreements	93.268	14-07-4-31-125-0	6,156
Drug-Free Communities Support Program Grants	93.276	7H79SP020426-02	24,431
PPHF Capacity Building Assistance to Strengthen Public Health Immunization			
Infrastructure and Performance Finance in part by Prevention and Public Health Funds	93.539	14-07-4-31-167-0	9,450
Maternal and Child Health Services Block Grant to States	93.994	14-07-5-01-027-0	20,173
Maternal and Child Health Services Block Grant to States	93.994	13-07-501-062-0	23,189
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 124,565</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-2012EP-00057-S01	\$ 9,614
Emergency Management Performance Grants	97.042	EMW-2013-EP-00044-S01	58,927
Homeland Security Grant Program	97.067	EMW-2011-SS-00052	16,071
Homeland Security Grant Program	97.067	EMW-2012-SS-00143	104,070
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 188,682</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 4,505,822</b>



LINCOLN COUNTY, MONTANA

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

Fiscal year Ended June 30, 2014

*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lincoln 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  
Lincoln County  
Libby, 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 Lincoln County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lincoln County's basic financial statements and have issued our report thereon dated March 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lincoln 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 Lincoln County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln County's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as items 2014-001 and 2014-003.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as identified as items 2014-002, 2014-004, 2014-005, and 2014-008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lincoln 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 items 2014-006 and 2014-007.

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

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

### **Purpose of this Report**

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

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

March 30, 2015

***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  
Lincoln County  
Libby, Montana

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

We have audited Lincoln County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

March 30, 2015

LINCOLN COUNTY, MONTANA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2014

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

**Financial Statements**

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

**Federal Awards**

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

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads - Grants to States
97.067	Homeland Security Grant Program

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

#### 2014-001 Other Post Employment Benefits (OPEB) Liability (repeated from FY12)

**Condition:**

The Governmental Accounting Standards Board (GASB) issued statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The purpose of the statement is for governments to recognize the cost of OPEB obligations as they are earned by the employees. To calculate the OPEB obligations governments are required to have an actuarial valuation performed every two years. Lincoln County has not had an actuarial valuation performed and has not recorded its OPEB obligation as required by the GASB.

**Context:**

The County does not comply with GASB 45 as stated above. An estimated liability was made using the information from a County of similar size to find an average liability per active employee. Then taking that average multiplied by the active number of employees at Lincoln County receiving health insurance benefits we came up with an estimated liability. Then based on Total Payroll expenditures in the Governmental funds and Proprietary fund, that liability was allocated based on the percentage of the Total. The final estimated liability for the Governmental funds is \$774,021 and Proprietary fund is \$237,326.

**Criteria:**

GASB Statement #45 provides guidance for recording the OPEB liability.

**Effect:**

Lincoln County is not in compliance with the reporting requirements of GASB #45. Estimated OPEB liability for government wide activities was \$774,021 and the current year portion was \$237,326. Estimated OPEB liability for business type activities was \$76,498 and the current year portion was \$23,455.

**Cause:**

The County has continued to choose not to report the OPEB liability.

**Recommendation:**

We recommend that the County hire an actuary for FY 2015 so that the County is in compliance.

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

Lincoln County will attempt to hire an actuary in the near future.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued

### 2014-002     Forest Reserve Payments

**Condition:**

The County did not distribute the forest reserve payments accurately to the school levied funds.

**Context:**

Testing of the distribution of forest reserve monies was completed.

**Criteria:**

The County made an inaccurate distribution of the forest reserve funds to school levied funds. An amount of \$29,833 was errantly sent back to the State that should have been allocated to the Transportation, High School Retirement, and Elementary Retirement funds. Specifically, the Transportation fund should have received \$1,055 more funding, the High School Retirement should have received \$16,374 more funding, and the Elementary Retirement should have received an additional \$12,404 in funding.

**Effect:**

The County sent a total of \$29,833 in forest reserve monies back to the State that should have been allocated to the Transportation, High School Retirement, and Elementary Retirement funds.

**Cause:**

When completing the allocation for FY 2014, there was an error made on the client's spreadsheet and the allocation was never reviewed.

**Recommendation:**

We recommend that the allocation to School Levied funds be made accurately and be reviewed to ensure that the allocation is correct.

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

The County will review the forest reserve distribution more thoroughly to ensure that the distribution is made accurately.

### 2014-003     Deficit Fund Balances

**Condition:**

The Grizzly Bear Study fund has a deficit fund balance of \$308,465 due to expenditures for the study exceeding the contributions and donations received by the County.

**Context:**

The County conducted a Grizzly bear study starting in fiscal year 2011. When scheduling out deficit fund balances, it was noted that the Grizzly Bear Study fund as of June 30, 2014 has a deficit fund balance of \$308,465. As of February 2015, the County has not received any further donations towards the study.

**Criteria:**

Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenses that may arise.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued**

**Effect:**

Significant deficiencies in fund balance noted as stated in the condition.

**Cause:**

Inadequate monitoring of balances prior to expenditure of funds.

**Recommendation:**

Fund balances should be reviewed on a regular basis to ensure that there are adequate resources available to cover expenses that may arise. In addition, if the County does not receive the resources as expected, the County should transfer funds from the General fund to eliminate the deficit fund balance and close the fund.

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

Lincoln County is attempting to collect the final pledged commitments for this project. Any negative balance remaining will be funded by the County through available funds.

**2014-004      Sheriff's Department**

**Condition:**

The following control weaknesses were noted in the Sheriff's Department:

- 1) Monthly bank reconciliations are not being performed for the Civil fees account or the Prisoners trust fund.
- 2) Corrections are being made on the deposit log relating to the Prisoners trust fund that are not reviewed by another sheriff's department supervisor.
- 3) For the Prisoners trust fund, only one person is responsible for counting the cash, reconciling the cash to the log book, and also can make adjustments to the log book.

**Context:**

An internal control walk through was completed in the Sheriff's department which included inquiry, observation, and testing of the controls in place.

**Criteria:**

A good system of internal control should ensure that all cash accounts are balanced timely. Additionally, corrections should not be made without approval and proper segregation of duties should be implemented to the extent possible.

**Effect:**

There is an internal control weakness in the Sheriff's department relating to the Civil fees account and the Prisoners trust fund account.

**Cause:**

Time constraints and the business of other job responsibilities were given as the cause of not completing monthly reconciliations.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued**

### **Recommendation:**

We recommend that the County balance the Civil fees and Prisoners trust fund account monthly and make deposits on a weekly basis. Further, we recommend that segregation of duties be implemented to the extent possible for the Prisoners trust fund. Additionally any changes on the deposit log be reviewed by an appropriate supervisor.

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

Deposits will be made on a weekly basis to the Treasurer's office. The Prisoners trust fund account will be balanced every two weeks. Two sheriff department personnel will be involved in the deposit activities to ensure proper segregation of duties and accuracy.

## **2014-005      Justice Court (Eureka) Internal Controls**

### **Condition:**

The following internal control weaknesses were noted in the Eureka JP Court:

- 1) The Internal Controls at the Justice Court are not adequately segregated. The Clerk at the court is responsible for receiving cash, recording transactions, disbursing cash, and making the bank deposit.
- 2) Manual receipts are given before entering the transaction into the full court accounting system.
- 3) Adjustments made by the Judge are not reviewed by any other individuals.

### **Context:**

An internal control evaluation was completed through observation, obtaining supporting documentation, inquiry, and testing/verifying what was stated.

### **Criteria:**

- 1) Proper segregation of duties should be implemented to ensure strong internal controls. When possible, the activities of receiving cash, access to the accounting system, and depositing cash should be segregated to the extent possible.
- 2) The clerk of court should enter all transactions into the full court system when payments are made and issue a printed receipt.
- 3) Adjustments made by the Judge should be reviewed by another individual for reasonableness.

### **Effect:**

There is a weakness in the internal control structure of the Lincoln County Justice Court located in Eureka.

### **Cause:**

The duties of receiving cash, recording transactions, and depositing have not been segregated properly. The Court's accounting system is not being used to issue printed receipts. Adjustments are not being reviewed.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued**

**Recommendation:**

We recommend the following changes:

- 1) Segregation of duties should be implemented to the greatest extent possible.
- 2) The Court Clerk should only issue computer generated receipts when payments are made and after the transaction has been entered into the full court system.
- 3) Adjustments that are made by the judge should be reviewed by a knowledgeable person.

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

The JP Court in Eureka has now been closed.

**2014-006      Taxes Levied**

**Condition:**

For the fiscal years ending June 30, 2012, 2013, and 2014 the County levied mills in excess of those allowed.

**Context:**

As noted in the prior year, the County levied mills in excess of those allowed.

**Criteria:**

MCA 15-10-420 defines the number of mills the County is allowed to levy.

**Effect:**

The following mills and amounts over levied are summarized below:

	<u>Mills over levied</u>	<u>Dollars over levied</u>
Fiscal year 2012	8.78	\$295,798
Fiscal year 2013	21.81	\$785,291
Fiscal year 2014	30.84	<u>\$1,133,393</u>
Total		<u>\$2,214,482</u>

**Cause:**

The County made a clerical error in the calculation of maximum mills levied.

**Recommendation:**

We recommend the County review their procedures for the calculation of maximum mill levies and be sure going forward that the County used the corrected calculations.

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

The County has corrected the calculations.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued

### 2014-007 Permissive Medical Levy

**Condition:**

In calculating the permissive medical levy for fiscal year 2013, Lincoln County incorrectly calculated 19.76 mills while the allowed mills were 17.75. This resulted in an over levy of 2.01 mills or approximately \$72,895 in fiscal year 2013. The County should have reduced the permissive medical levy for fiscal year 2014 by approximately \$72,895. The County only reduced the levy by 1.21 mills or approximately \$28,861 leaving a remaining over levy of 1.21 mills or approximately \$44,034.

**Context:**

A recalculation of the permissive medical levy for fiscal year 2014 was performed and then compared to what was actually levied. It was calculated that the County initially could levy 19.14 mills in fiscal year 2014 before the reduction due to 2013 error. They actually levied 18.35 mills. The \$72,895 was then calculated into 2014 mills based on the 2013 taxable value. This calculated to be 2.007 mills in the current year. Therefore the County should have only levied 17.14 mills in fiscal year 2014. The remaining amount of the over levy in fiscal year 2014 is 1.21 mills or approximately \$44,034.

**Criteria:**

In the prior year the County miscalculated the levy. In calculating the levy, the County must use the budgeted amount of non-enterprise fund health insurance costs for 2013 and the actual number of non-enterprise fund employees receiving health benefits as of July 1, 2012. The County included budgeted health insurance costs related to the enterprise activities and did not include all non-enterprise fund employees receiving health benefits as of July 1, 2012. Both errors resulted in a higher calculated amount for the permissive medical levy in the prior year. In the current year, they failed to reduce the levy to eliminate the full amount that was over levied in the prior year.

**Effect:**

The permissive medical levy was not reduced by the full amount leaving \$44,034 to be corrected in fiscal year 2015.

**Cause:**

The use of enterprise fund amounts in the budgeted health insurance costs and using only 123 employees instead of the actual 130 resulted in a combined overstatement of allowable levy in the prior year. The County then failed to fully reduce the levy in fiscal year 2014 to account for the full amount of the over levy in the prior year.

**Recommendation:**

We also recommend that the fiscal year 2015 levy be reduced by \$44,034 from allowable to correct the remaining fiscal year 2013 over levy amount.

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

The County has followed the recommendation and reduced the permissive medical levy by 2 mills.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued**

### **2014-008      Expenditure Classification**

**Condition:**

Expenditures related to the Operation Stonegarden Grant are not segregated from nonfederal expenditures. The same fund that is used for other Public Safety expenditures is being used to account for the Stonegarden Grant.

**Context:**

A review of the County's Public Safety fund revealed that payroll expenditures related to Operation Stonegarden were not separated from payroll expenditures that were for nonfederal uses.

**Criteria:**

An adequate internal control system requires that the County designate federal expenditures related to the federal program from nonfederal expenditures. This ensures accurate accounting records are being maintained and that the reimbursement for these expenditures can be accurately calculated.

**Cause:**

The County has decided to use the same fund to account for federal expenditures and nonfederal expenditures rather than creating a separate fund for the Stonegarden grant. Additionally, the payroll expenditures that are made regarding the Stonegarden grant are designated with the same account as payroll expenditures that are unrelated to the grant.

**Recommendation:**

We recommend that the County set up a separate fund to account for the federal revenue and expenditures that are related to the Stonegarden grant to ensure that accurate accounting records are being maintained.

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

In the future the County will segregate grants using different funds.

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

There were no federal award findings or questioned costs reported.

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of County Commissioners  
Lincoln County  
Libby, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Other Post Employment Benefits Liability (OPEB)	Repeated
Taxes Levied	Repeated
Permissive Medical Levy	Repeated

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

March 30, 2015