

CARBON COUNTY
RED LODGE, MONTANA

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CARBON COUNTY

ORGANIZATION

June 30, 2012

BOARD OF COUNTY COMMISSIONERS

Douglas Tucker	Board Chairman
John Grewell	Commissioner
John Prinkki	Commissioner

ELECTED OFFICIALS

Marcia Henigman	Clerk and Recorder
Jane Swanson-Webb	County Treasurer
Thomas Rieger	County Sheriff/Coroner
Alex Nixon	County Attorney
Jerry Scott	County Superintendent
Rochelle Loyning	Clerk of District Court
Kevin Nichols	Justice of the Peace

OLNESS & ASSOCIATES, P. C.

BRENT D. OLNESS, CPA

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

CURT D. WYSS, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Carbon County
Red Lodge, Montana

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2012, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities and the road and bridge funds, as described in the third paragraph, and except for the effects of not recording the OPEB liability and related expense in the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the road and bridge funds of the government, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund (excluding the road and bridge funds) and the aggregate remaining fund information of the government as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

O'Leary & Associates, PC

January 30, 2012

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

As financial management of Carbon County, a political subdivision of the state of Montana, we offer readers of the attached Carbon County financial statements this narrative. This discussion and analysis of the financial performance of Carbon County provides an overview of the government's financial activities and financial position for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

- Net assets of our governmental activities increased by \$294,058 or 2 percent.
- During the year, our government had expenses that were \$1,470,540 more than the \$7,411,415 generated in tax and other general revenues for governmental programs.
- Total cost of all of programs increased \$401,251.
- The General fund reported a decrease this year of \$158,253 in its fund balance.
- Total governmental revenues were \$9,176,013, an increase of 2% over the prior year, while governmental expenditures increased to \$8,881,955, an increase of 5% over the prior year.
- There were no General fund budget amendments this year. Carbon County continues to keep its capital equipment, buildings, roads, and bridges in good condition and up to date. We remain debt free.

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Carbon County. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

One of the most important questions asked about Carbon County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities (pages 9 and 10) report information about Carbon County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements (Statement of Net Assets and Statement of Activities) report the net assets and changes in them. You can think of net assets – the difference between assets and liabilities – as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net assets is one indicator of whether the County's financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the condition of the capital assets (county roads and bridges), to assess the overall health of Carbon County.

The Statement of Net Assets and the Statement of Activities, include governmental activities consisting of public safety, public works, culture and recreation, and general administration. Property taxes, local option vehicle taxes, and state and federal grants finance most of these activities.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carbon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The fund financial statements (pages 11 and 13) provide detailed information about the most significant funds – not the County as a whole. Some funds are required to be established by State law and/or bond covenants. Also, the Board of County Commissioners establishes many other funds to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other money. Carbon County utilizes the following funds:

Governmental funds – Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Carbon County describes the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations (pages 12 and 14, respectively).

Carbon County maintains individual governmental funds, and adopts an annual appropriated budget for them. The general, road, bridge, emergency disaster and public safety funds are all considered to be major funds. Other governmental funds are combined into a single aggregate presentation titled other governmental funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget, both original and final, to demonstrate compliance with the budgets. This information is reported as required supplementary information.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Carbon County. Fiduciary funds use the accrual basis of accounting. Carbon County excludes these activities from the other financial statements because we cannot use these assets to finance the County's operations. Carbon County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

NOTES TO BASIC FINANCIAL STATEMENT

The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 17 of this report.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$14,485,756, as of June 30, 2012.

Net assets of our governmental activities increased by \$294,058 or 2 percent.

Of the County's total net assets (\$14,485,756), our investment in capital assets account for \$7,048,036 or 49%. Capital assets reflect the County's investments in land, buildings, improvements, infrastructure and machinery and equipment. Carbon County uses these capital assets to provide services to citizens and the community; consequently these assets are not available for future spending.

Unrestricted net assets account for \$2,417,736 or 17% of the total net assets. Unrestricted net assets are primarily used for cash flow purposes in between property tax collections, which are due in 50 percent installments on November 30 and May 31 of each year, and also to provide against unforeseen costs or events.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

A recap of the County's net assets and changes in net assets follows:

Carbon County's Net Assets

	2012	2011	Change
Current and other assets	\$ 8,018,478	\$ 7,726,142	\$ 292,336
Capital assets	7,048,036	7,005,486	42,550
Total assets	<u>15,066,514</u>	<u>14,731,628</u>	<u>334,886</u>
Other liabilities	95,269	68,405	26,864
Long-term liabilities outstanding	485,489	471,525	13,964
Total liabilities	<u>580,758</u>	<u>539,930</u>	<u>40,828</u>
Net assets:			
Invested in capital assets	7,048,036	7,005,486	42,550
Restricted	5,019,984	4,583,934	436,050
Unrestricted	2,417,736	2,602,278	(184,542)
	<u>\$ 14,485,756</u>	<u>\$ 14,191,698</u>	<u>\$ 294,058</u>

Carbon County's Changes in Net Assets

	2012	2011	Change
Revenues:			
Program revenues:			
Charges for services	\$ 729,152	\$ 708,727	\$ 20,425
Operating grants and contributions	983,129	1,037,265	(54,136)
Capital grants and contributions	52,317	70,278	(17,961)
General revenues:			
Taxes	4,661,728	4,493,290	168,438
Intergovernmental	2,474,033	2,408,454	65,579
Interest	50,692	61,057	(10,365)
Miscellaneous	83,887	127,918	(44,031)
Gain on disposal of capital assets	141,075	54,193	86,882
Total revenues	<u>9,176,013</u>	<u>8,961,182</u>	<u>214,831</u>
Expenses:			
General government	2,314,416	2,134,003	180,413
Public safety	2,246,233	2,037,985	208,248
Public works	3,559,000	3,329,979	229,021
Public health	174,469	190,148	(15,679)
Social and economic services	119,946	117,401	2,545
Culture and recreation	328,878	487,446	(158,568)
Housing and community development	27,000	78,147	(51,147)
Other current charges	112,013	105,595	6,418
Total expenses	<u>8,881,955</u>	<u>8,480,704</u>	<u>401,251</u>
Change in net assets	294,058	480,478	(186,420)
Net assets, beginning	14,191,698	13,507,245	684,453
Prior period adjustments	-	203,975	(203,975)
Net assets, ending	<u>\$ 14,485,756</u>	<u>\$ 14,191,698</u>	<u>\$ 294,058</u>

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

FUND FINANCIAL STATEMENT ANALYSIS

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

Total assets, liabilities, revenues, or expenditures of an individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds.

As of June 30, 2012, Carbon County's governmental funds reported combined fund balances of \$7,385,758, an increase of \$234,764 from the prior year. \$1,862,339 is unassigned and the remaining \$5,523,419 is restricted or in nonspendable form.

The general fund is the primary operating fund of Carbon County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. As of June 30, 2012, the general fund balance was \$1,862,339, a decrease from the prior year of \$158,253 or 2%.

The road fund accounts for resources accumulated and payments made for the maintenance, repair, and construction of county-owned roads. At the end of the fiscal year, the fund balance of the road fund was \$1,765,285, an increase of \$150,317 over the prior year.

The bridge fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned bridges. At year-end, the bridge fund balance was \$659,711, an increase of \$81,359 over the prior year.

The emergency disaster fund accounts for property taxes and state and federal grants and payments made for recovery from disasters and emergencies. At year-end, fund balance was \$64,808.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. Fund balance of the public safety fund was \$780,433, an increase of \$38,389 over the prior year.

General Fund Budgetary Highlights.

General fund expenditures were \$652,081 less than the amount budgeted. Revenues received were \$152,212 more than anticipated. Various capital outlay and contracts for services did not transpire by year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's investment in capital assets (net of accumulated depreciation) as of June 30, 2012 was \$7,048,037. This investment in capital assets includes land, buildings/improvements, machinery and equipment, and infrastructure. During fiscal year 2012 significant capital additions included repair of roads and bridges damaged by flooding in the spring of 2011, the purchase of Sheriff department vehicles and road and bridge equipment.

Long-term Debt

Compensated absences are a liability of the County for unpaid vacation and sick leave and compensatory time earned at year-end. The amount of the liability generally increases on an annual basis as a result of increasing wages and a general growth in the number of total compensable hours. The amount of this liability on June 30, 2012 was \$485,489. This is the only long-term outstanding liability Carbon County has.

THE GOVERNMENT'S FUTURE

Carbon County's financial status remains solid. All of our fund reserves are still at the maximum level of 33% of the appropriations as allowed by Montana state law. Our county-wide taxable valuation for fiscal year 2012 increased by 4.01% and our rural taxable valuation for road purposes increased by 4.2%. Investment rates are still pretty much at the bottom. The revenues from our PLT, Federal Mineral Royalties, and Oil & Gas Production programs increased in total by \$21,922 from the previous year. These funds are very valuable to help offset the increases in salaries/benefits, public safety expenses, road and bridge maintenance and other operating costs. There is always a demand for increased services, while we continue to provide maintenance and upkeep on our existing assets.

In preparation for the budget year 2012-2013, we again kept our mills at the maximum level allowed by state law in order to cover the increasing costs of running a county government. We were fortunate to have enough funding to budget a new Joliet Road Shop. Construction will begin in the summer of 2012.

As the state and cities continue to cut back on their funding, everyone wants more financial support from the county to keep their existing programs functioning and growing. The county cannot fill all of these wants and wishes but will continue to be aware of and concerned with these situations and will do the best we can. The county will also try to differentiate between the wants and needs and compare the costs of services we provide with the benefits derived from those services, and we will proceed as funds and time allow.

We always have to be aware of the state government passing on increased demands to the county governments. But we, as counties,

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

have to be fiscally responsible to our county taxpayers and protect our financial sources and abilities to serve our county citizens.

Carbon County is finalizing the replacement and repair of water ways, bridges, and county roads damaged by flooding in May 2011. Many of these projects were funded in part with FEMA disaster funding including the Shane Ridge Road Bridge which will be replaced with FEMA funds in the upcoming year.

Construction of the new Joliet Road shop began in the summer of 2012 and will be completed in early 2013. The new building will also house the County Extension Office and the Joliet Food Bank. With the construction of this new shop building, we will have three new road shop buildings.

After the District Judge ruled that Governor's veto of TSEP funding was unconstitutional, the County was able to pursue the replacement of the 19th Street Bridge in Red Lodge. Construction of the Bridge began in the summer of 2012.

We are continuing to study our bridges and replace them as needed and as funding will allow. Carbon County was given notice on January 12, 2012, from the Western Federal Lands (WFL) division of the Federal Highway Administration, that the West Fork Road project was approved for funding in the amount of \$5.5 million. A project agreement between Carbon County, WFL, and the Forest Service was signed in June 2012. Subsequent to that the 2012 MAP-21 Transportation bill was passed changing funding criteria which could require a 13.4% match from Carbon County. The issue of match is being hotly debated at this time.

New construction is still down, and we are continuing to see final foreclosures, bankruptcies, repeat trustee sales and refinancing.

Defendants in two court cases in Carbon County involving starving horses were sentenced in July 2012 and the Beartooth Humane Alliance has taken responsibility for rehoming the horses.

We are still seeing interest in oil leasing. The Coal Mountain Mining Company is continuing to be positive in their endeavors and explorations to get coal mining going again in the Carbon County area. Wyo-Ben is also exploring bentonite mining in the eastern part of the county.

Our only CTEP Project this coming year is the Roberts Community Project.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Carbon County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Carbon County Finance
PO Box 887
Red Lodge, MT 59068

406-446-1595

anewell@co.carbon.mt.us

CARBON COUNTY
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS		
Cash and equivalents		\$ 4,418,134
Investments		2,653,297
Receivables:		
Taxes and assessments	537,451	
Governments	60,811	
Option tax repayment	172,472	
Inventories	176,313	
Capital assets:		
Land and construction in progress	188,717	
Depreciable capital assets, net	6,859,319	
Total assets		<u>15,066,514</u>
LIABILITIES		
Accounts payable-vendors	6,000	
Deferred revenue	89,269	
Long-term liabilities:		
Compensated absences:		
Due within one year	71,877	
Due in more than one year	413,612	
Total liabilities		<u>580,758</u>
NET ASSETS		
Invested in capital assets	7,048,036	
Restricted for:		
General government	396,949	
Public safety	1,166,293	
Public works	3,130,329	
Public health	37,967	
Social and economic	53,885	
Culture and recreation	197,600	
Housing and community development	2,968	
Capital projects	33,993	
Unrestricted	2,417,736	
Total net assets		<u><u>\$ 14,485,756</u></u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,314,416	\$ 225,398	\$ 4,108	\$ -	\$ (2,084,910)
Public safety	2,246,233	139,372	217,009	-	(1,889,852)
Public works	3,559,000	347,617	622,360	52,317	(2,536,706)
Public health	174,469	16,374	104,283	-	(53,812)
Social and economic services	119,946	391	-	-	(119,555)
Culture and recreation	328,878	-	8,369	-	(320,509)
Housing and community development	27,000	-	27,000	-	-
Other current charges	112,013	-	-	-	(112,013)
Total	\$ 8,881,955	\$ 729,152	\$ 983,129	\$ 52,317	(7,117,357)
General revenues:					
Property taxes					4,661,728
Intergovernmental					2,474,033
Investment earnings					50,692
Miscellaneous					83,887
Gain on disposal of capital assets					141,075
Total general revenues					7,411,415
Change in net assets					294,058
Net assets - beginning					14,191,698
Net assets - ending					<u>\$ 14,485,756</u>

See notes to basic financial statements.

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Road	Bridge	Emergency Disaster	Public Safety	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,053,115	\$ 1,017,402	\$ 378,377	\$ 64,940	\$ 497,357	\$ 1,406,943	\$ 4,418,134
Investments	632,445	610,998	227,233	39,000	298,686	844,935	2,653,297
Receivables:							
Taxes and assessments	113,049	130,551	66,543	2,316	134,107	90,885	537,451
Governments	4,307	-	14,673	34,527	-	7,304	60,811
Option tax overpayment	172,472	-	-	-	-	-	172,472
Inventories	-	136,885	39,428	-	-	-	176,313
Total assets	\$ 1,975,388	\$ 1,895,836	\$ 726,254	\$ 140,783	\$ 930,150	\$ 2,350,067	\$ 8,018,478
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable-vendors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,000	\$ 6,000
Deferred revenue	113,049	130,551	66,543	75,975	149,717	90,885	626,720
Total liabilities	113,049	130,551	66,543	75,975	149,717	96,885	632,720
Fund balances:							
Nonspendable:							
Inventory	-	136,885	39,428	-	-	-	176,313
Restricted for:							
General government	-	-	-	-	-	379,815	379,815
Public safety	-	-	-	-	780,433	233,054	1,013,487
Public works	-	1,628,400	620,283	64,808	-	419,912	2,733,403
Public health	-	-	-	-	-	37,689	37,689
Social and economic services	-	-	-	-	-	48,065	48,065
Culture and recreation	-	-	-	-	-	169,849	169,849
Housing and community development	-	-	-	-	-	2,968	2,968
Capital projects	-	-	-	-	-	33,993	33,993
Committed for:							
General government	-	-	-	-	-	927,837	927,837
Unassigned	1,862,339	-	-	-	-	-	1,862,339
Total fund balances	1,862,339	1,765,285	659,711	64,808	780,433	2,253,182	7,385,758
Total liabilities and fund balances	\$ 1,975,388	\$ 1,895,836	\$ 726,254	\$ 140,783	\$ 930,150	\$ 2,350,067	\$ 8,018,478

See notes to basic financial statements.

CARBON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balance, governmental funds	\$ 7,385,758
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	7,048,036
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	537,451
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(485,489)</u>
Net assets of governmental activities	<u>\$ 14,485,756</u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General	Road	Bridge	Emergency Disaster	Public Safety	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes/assessments	\$ 1,349,234	\$ 992,975	\$ 513,785	\$ 50,421	\$ 1,041,246	\$ 942,503	\$ 4,890,164
Fines and forfeitures	76,466	-	-	-	-	7,405	83,871
Licenses and permits	14,105	1,400	-	-	4,580	-	20,085
Intergovernmental	259,184	330,074	112,361	328,266	146,208	2,326,345	3,502,438
Charges for services	198,636	300	6,600	-	44,433	116,083	366,052
Investment earnings	39,506	6,591	-	-	-	4,595	50,692
Miscellaneous	37,471	10,146	5,630	-	13,711	17,470	84,428
Total revenues	1,974,602	1,341,486	638,376	378,687	1,250,178	3,414,401	8,997,730
EXPENDITURES							
Current:							
General government	1,998,651	-	-	-	-	238,155	2,236,806
Public safety	100,882	-	-	-	1,451,172	528,135	2,080,189
Public works	15,520	1,555,862	830,032	316,052	-	392,737	3,110,203
Public health	70,426	-	-	-	-	104,043	174,469
Social and economic services	41,297	-	-	-	-	78,649	119,946
Culture and recreation	27,475	-	-	-	-	323,294	350,769
Housing and community development	-	-	-	-	-	27,000	27,000
Other current charges	112,013	-	-	-	-	-	112,013
Capital outlay	66,870	371,169	23,344	10,473	67,369	63,272	602,497
Total expenditures	2,433,134	1,927,031	853,376	326,525	1,518,541	1,755,285	8,813,892
Excess (deficiency) of revenues over expenditures	(458,532)	(585,545)	(215,000)	52,162	(268,363)	1,659,116	183,838
OTHER FINANCING SOURCES (USES)							
Insurance recoveries	26,975	-	-	12,646	1,285	1,470	42,376
Sale of capital assets	-	-	-	-	-	8,550	8,550
Transfers in	273,304	735,862	296,359	-	305,467	246,131	1,857,123
Transfers out	-	-	-	-	-	(1,857,123)	(1,857,123)
Total other financing sources (uses)	300,279	735,862	296,359	12,646	306,752	(1,600,972)	50,926
Net change in fund balances	(158,253)	150,317	81,359	64,808	38,389	58,144	234,764
Fund balances - beginning	2,020,592	1,614,968	578,352	-	742,044	2,195,038	7,150,994
Fund balances - ending	<u>\$ 1,862,339</u>	<u>\$ 1,765,285</u>	<u>\$ 659,711</u>	<u>\$ 64,808</u>	<u>\$ 780,433</u>	<u>\$ 2,253,182</u>	<u>\$ 7,385,758</u>

See notes to basic financial statements.

CARBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 234,764
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
This is the amount by which depreciation (\$698,972) exceeded capital outlay (\$602,497) in the current period.	(96,475)
The net effect of various transactions involving capital assets (i.e., sales, donations, insurance and trade-ins) is to increase net assets.	139,025
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	30,708
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	(13,964)
Change in net assets of governmental activities	\$ <u>294,058</u>

CARBON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 5,851,496	\$ 450,477
Investments	3,665,103	-
Taxes and assessments receivable	-	1,343,564
Total assets	<u>9,516,599</u>	<u>\$ 1,794,041</u>
LIABILITIES		
Accounts payable	-	\$ 86,766
Due to special districts	-	95,123
Due to state	-	349,155
Due to schools	-	1,026,478
Due to cities/towns	-	236,519
Total liabilities	-	<u>\$ 1,794,041</u>
NET ASSETS		
Held in trust for external investment pool participants	<u>\$ 9,516,599</u>	

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Year Ended June 30, 2012

	External Investment Trust Fund
ADDITIONS	
Contributions	<u>\$ 12,037,601</u>
Investment earnings:	
Interest	<u>63,676</u>
Total net investment earnings	<u>63,676</u>
Total additions	<u>12,101,277</u>
DEDUCTIONS	
Distributions to participants	<u>11,817,630</u>
Total deductions	<u>11,817,630</u>
Change in net assets	283,647
Net assets - beginning	<u>9,232,952</u>
Net assets - ending	<u><u>\$ 9,516,599</u></u>

See notes to basic financial statements.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the government. Based on the aforementioned criteria, the government has no component units.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

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

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

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

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

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

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

The emergency disaster fund accounts for property taxes and state and federal grants and payments made for recovery from disasters and emergencies.

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

Additionally, the government reports the following fund types:

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

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

Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 56 percent of the investment pool belongs to these districts.

Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values. The pool unit value is fixed at \$1 for purchases and redemptions. Income is automatically reinvested in additional units. The government did not provide or obtain any legally binding guarantees to support the value of the units.

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

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

Receivables

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Inventories

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

Capital Assets

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

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

Assets	Years
Infrastructure	30
Building and improvements	15-155
Machinery and equipment	5-39

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

Fund Equity

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

Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

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

The governing body has by resolution authorized the Commissioner's administrative assistant and/or Board of County Commissioners to assign fund balance. There was no assigned fund balance in the general fund.

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$	7,071,431
Fiduciary funds		<u>9,967,076</u>
		<u><u>\$ 17,038,507</u></u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2012, consisted of the following:

	<u>Cash/Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 2,191	\$ -	\$ 2,191
Cash in banks:			
Demand deposits	8,015,593	-	8,015,593
Time deposits	-	-	-
Savings deposits	(511,230)	-	(511,230)
Brokers:			
U.S. Government securities	-	6,150,000	6,150,000
Money markets	28,964	-	28,964
Mutual funds	-	168,400	168,400
Repurchase agreement	1,043,593	-	1,043,593
Short-term Investment Program (STIP)	2,140,996	-	2,140,996
	<u>\$ 10,720,107</u>	<u>\$ 6,318,400</u>	<u>\$ 17,038,507</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$7,915,334 of the government's bank balance of \$8,417,143 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging banks
trust department not in the government's name \$ 7,915,334

State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2012, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2012 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value (1)	% of Total
U.S. Government securities	.5-1.25%	Various	\$ 6,150,000	\$ 6,150,000	\$ 6,146,398	97.33%
Mutual funds	N/A	N/A	N/A	168,400	174,916	2.67%
				<u>\$ 6,318,400</u>	<u>\$ 6,321,314</u>	

(1) A fair value adjustment is not reflected in the financial statements.

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

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

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

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 500,000	\$ -	\$5,650,000	\$ 6,150,000	\$ 6,146,398
Repurchase agreement	-	-	1,043,593	1,043,593	1,043,593
Money markets with brokers	28,964	-	-	28,964	28,964
	<u>\$ 528,964</u>	<u>\$ -</u>	<u>\$6,693,593</u>	7,222,557	7,218,955
Uncategorized:					
Mutual funds				168,400	174,916
STIP				2,140,996	2,140,996
				<u>\$ 9,531,953</u>	<u>\$ 9,534,867</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2012:

	Internal	External	Total
Net assets - beginning of year	\$ 6,839,565	\$ 9,232,952	\$ 16,072,517
Contributions from participants	8,542,632	12,037,601	20,580,233
Investment earnings	50,692	63,676	114,368
Distributions to participants	(7,910,981)	(11,817,630)	(19,728,611)
Net assets - end of year	<u>\$ 7,521,908</u>	<u>\$ 9,516,599</u>	<u>\$ 17,038,507</u>

Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not being depreciated				
Land	\$ 97,077	\$ 16,300	\$ -	\$ 113,377
Construction-in-progress	30,053	45,287	-	75,340
Total capital assets, not being depreciated	<u>127,130</u>	<u>61,587</u>	<u>-</u>	<u>188,717</u>
Capital assets, being depreciated				
Buildings/improvements	2,641,199	84,203	-	2,725,402
Machinery and equipment	6,038,423	606,207	(228,208)	6,416,422
Infrastructure	2,518,412	-	-	2,518,412
Total capital assets, being depreciated	<u>11,198,034</u>	<u>690,410</u>	<u>(228,208)</u>	<u>11,660,236</u>
Less accumulated depreciation for:				
Buildings/improvements	(766,773)	(74,368)	-	(831,141)
Machinery and equipment	(3,211,001)	(540,423)	217,733	(3,533,691)
Infrastructure	(351,904)	(84,181)	-	(436,085)
Total accumulated depreciation	<u>(4,319,678)</u>	<u>(698,972)</u>	<u>217,733</u>	<u>(4,800,917)</u>
Total capital assets, being depreciated, net	<u>6,878,356</u>	<u>(8,562)</u>	<u>(10,475)</u>	<u>6,859,319</u>
Capital assets, net	<u>\$ 7,005,486</u>	<u>\$ 53,025</u>	<u>\$ (10,475)</u>	<u>\$ 7,048,036</u>

Depreciation expense was charged as follows:

General government	\$ 74,220
Public safety	147,417
Public works	470,886
Culture and recreation	6,449
Total depreciation	<u>\$ 698,972</u>

Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
General	\$ 273,304	\$ -	\$ 273,304
Road	735,862	-	735,862
Bridge	296,359	-	296,359
Public Safety	305,467	-	305,467
Nonmajor governmental funds	246,131	(1,857,123)	(1,610,992)
	<u>\$ 1,857,123</u>	<u>\$ (1,857,123)</u>	<u>\$ -</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Transfers are made to fund operations of various governmental activities and to fund future capital improvements.

Operating Leases

The government leases phone equipment under a non-cancelable operating lease. Total rental expenses for operating leases were \$18,292 for the year ended June 30, 2012. Scheduled minimum rental payments for succeeding years ending June 30, are as follows:

<u>Year</u>	
2013	\$ 18,292
2014	18,292
2015	18,292
2016	<u>18,292</u>
	<u>\$ 73,168</u>

Long-Term Debt

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u>	<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2011</u>	<u>June 30, 2012</u>	<u>One Year</u>
Compensated absences	\$ <u>471,525</u>	\$ <u>13,964</u>	\$ <u>-</u>
		\$ <u>485,489</u>	\$ <u>71,877</u>

Compensated absences are generally liquidated from the fund in which the employee is paid.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in a state-wide public risk pool, MACO, for workers' compensation coverage. The government pays monthly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. The government also participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Jointly Governed Organization

The County participates with the City of Red Lodge and the Town of Bridger in a Joint Airport. The organization is authorized by Part 2, Chapter 10, Title 67, MCA. The Airport Board consists of seven members; three from the City and Town; three from the County and one appointed by the Airport Board

Contingencies

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

Retirement Plans

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Beginning in fiscal year 2002, eligible members of PERS had a 12-month window to choose between the PERS-defined benefit retirement plan (DBRP) or the PERS-defined contribution retirement plan (DCRP). Eligible new hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be active in both the defined contribution and defined benefit retirement plans. The choice is irrevocable. For members that choose to join the PERS-DCRP, a percentage of the employer contribution is used to maintain the funding of the defined benefit plan.

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

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

	Employer	Employee	Total
SRS	10.115%	9.245%	19.360%
PERS (hired prior to 7-1-2011)	7.070%	6.900%	13.970%
PERS (hired on or after 7-1-2011)	7.070%	7.900%	14.970%

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

The amounts contributed to the plans during the years ended June 30, 2012, 2011 and 2010 were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	2012	2011	2010
SRS	\$ 96,719	\$ 88,537	\$ 83,722
PERS	350,433	347,385	340,358
	<u>\$ 447,152</u>	<u>\$ 435,922</u>	<u>\$ 424,080</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements (effective for periods beginning after December 15, 2011). Improve financial reporting by addressing issues related to service concession arrangements (SCAs).

GASB No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (effective for periods beginning after June 15, 2012). Improve financial reporting for a governmental financial reporting entity.

GASB No.62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (effective for periods beginning after December 15, 2011). The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (effective for periods beginning after December 15, 2011). Presentation changes in the government-wide financial statements and the proprietary and fiduciary fund financial statements.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

GASB No. 65, Items Previously Reported as Assets and Liabilities (effective for periods beginning after December 15, 2012). Presentation changes due to expansion of transactions that result in deferred inflows/outflows; identification of new inflows/outflows, and related change in major funds determination.

GASB No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62 (effective for periods beginning after December 15, 2012). Presentation and disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CARBON COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Taxes/assessments	\$ 1,243,453	\$ 1,243,453	\$ 1,349,234
Fines and forfeitures	55,300	55,300	76,466
Licenses and permits	11,500	11,500	14,105
Intergovernmental	265,382	265,382	259,184
Charges for services	173,755	173,755	198,636
Investment earnings	40,000	40,000	39,506
Miscellaneous	29,000	29,000	37,471
Total revenues	1,818,390	1,818,390	1,974,602
EXPENDITURES			
Current:			
General government	2,383,270	2,383,270	1,998,651
Public safety	173,570	173,570	100,882
Public works	20,000	20,000	15,520
Public health	71,195	71,195	70,426
Social and economic services	48,753	48,753	41,297
Culture and recreation	-	-	27,475
Other current charges	133,000	133,000	112,013
Capital outlay	255,427	255,427	66,870
Total expenditures	3,085,215	3,085,215	2,433,134
Excess (deficiency) of revenues over expenditures	(1,266,825)	(1,266,825)	(458,532)
OTHER FINANCING SOURCES			
Insurance recoveries	-	-	26,975
Transfers in	273,304	273,304	273,304
Total other financing sources	273,304	273,304	300,279
Net change in fund balance	\$ (993,521)	\$ (993,521)	(158,253)
Fund balance - beginning			2,020,592
Fund balance - ending			\$ 1,862,339

See notes to required supplementary information.

CARBON COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Road Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,008,865	\$ 1,008,865	\$ 992,975
Licenses and permits	1,200	1,200	1,400
Intergovernmental	437,795	437,795	330,074
Charges for services	300	300	300
Investment earnings	4,000	4,000	6,591
Miscellaneous	2,000	2,000	10,146
Total revenues	1,454,160	1,454,160	1,341,486
EXPENDITURES			
Current:			
Public works	1,632,100	1,632,100	1,555,862
Capital outlay	945,000	945,000	371,169
Total expenditures	2,577,100	2,577,100	1,927,031
Excess (deficiency) of revenues over (under) expenditures	(1,122,940)	(1,122,940)	(585,545)
OTHER FINANCING SOURCES			
Insurance recoveries	7,313	7,313	-
Transfers in	735,863	735,863	735,862
Total other financing sources	743,176	743,176	735,862
Net change in fund balance	\$ (379,764)	\$ (379,764)	150,317
Fund balance - beginning			1,614,968
Fund balance - ending			\$ 1,765,285

See notes to required supplementary information.

CARBON COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Bridge Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Taxes/assessments	\$ 520,246	\$ 520,246	\$ 513,785
Intergovernmental	109,735	311,669	112,361
Charges for services	-	-	6,600
Miscellaneous	200	200	5,630
Total revenues	630,181	832,115	638,376
EXPENDITURES			
Current:			
Public works	901,800	901,800	830,032
Capital outlay	18,000	421,868	23,344
Total expenditures	919,800	1,323,668	853,376
Excess (deficiency) of revenues over (under) expenditures	(289,619)	(491,553)	(215,000)
OTHER FINANCING SOURCES			
Transfers in	94,425	296,359	296,359
Total other financing sources	94,425	296,359	296,359
Net change in fund balance	\$ (195,194)	\$ (195,194)	81,359
Fund balance - beginning			578,352
Fund balance - ending			\$ 659,711

See notes to required supplementary information.

CARBON COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Emergency Disaster Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 68,870	\$ 68,870	\$ 50,421
Intergovernmental	365,711	365,711	328,266
Total revenues	434,581	434,581	378,687
EXPENDITURES			
Current:			
Public works	447,226	447,226	316,052
Capital outlay	-	-	10,473
Total expenditures	447,226	447,226	326,525
Excess (deficiency) of revenues over (under) expenditures	(12,645)	(12,645)	52,162
OTHER FINANCING SOURCES			
Insurance recoveries	12,645	12,645	12,646
Total other financing sources	12,645	12,645	12,646
Net change in fund balance	\$ -	\$ -	64,808
Fund balance - beginning			-
Fund balance - ending			<u>\$ 64,808</u>

See notes to required supplementary information.

CARBON COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL

Public Safety Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Taxes/assessments	\$1,054,765	\$ 1,054,765	\$ 1,041,246
Licenses and permits	4,000	4,000	4,580
Intergovernmental	171,559	171,559	146,208
Charges for services	38,000	38,000	44,433
Miscellaneous	8,000	8,000	13,711
Total revenues	1,276,324	1,276,324	1,250,178
EXPENDITURES			
Current:			
Public safety	1,681,920	1,681,920	1,451,172
Capital outlay	68,000	68,000	67,369
Total expenditures	1,749,920	1,749,920	1,518,541
Excess (deficiency) of revenues over (under) expenditures	(473,596)	(473,596)	(268,363)
OTHER FINANCING SOURCES			
Insurance recoveries	9,392	9,392	1,285
Transfers in	305,467	305,467	305,467
Total other financing sources	314,859	314,859	306,752
Net change in fund balance	\$ (158,737)	\$ (158,737)	38,389
Fund balance - beginning			742,044
Fund balance - ending			\$ 780,433

See notes to required supplementary information.

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012

BUDGETARY INFORMATION

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

OTHER SUPPLEMENTARY INFORMATION

CARBON COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Award/Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2011	Receipts	Expenditures/Disbursed	Returned to Grantor/Other	Balance June 30, 2012
<u>U.S. Department of Transportation:</u>								
Passed through the Montana Department of Transportation:								
State and Community Highway Safety	20.600	2010-02-20-10	\$ 4,000	\$ -	805	805	\$ -	\$ -
Subtotal				-	805	805	-	-
Highway Planning and Construction	20.205	STPE 5(45)	18,701	(18,700)	18,700	-	-	-
Highway Planning and Construction	20.205	STPE 5(42)	94,345	(7,274)	11,839	4,565	-	-
Subtotal				(25,974)	30,539	4,565	-	-
				(25,974)	31,344	5,370	-	-
Total U.S. Department of Transportation								
<u>U.S. Department of Homeland Security:</u>								
Passed through the Montana Department of Fish, Wildlife, and Parks:								
Boating Safety Financial Assistance	97.012	N/A	1,600	-	1,440	1,440	-	-
Boating Safety Financial Assistance	97.012	N/A	3,000	-	300	300	-	-
Subtotal				-	1,740	1,740	-	-
Passed through the Montana Department of Military Affairs - Disaster & Emergency Services Division:								
Disaster Grants - Public Assistance	97.036	FEMA-1996-DR-MT	817,517	-	442,437	411,346	-	31,091
Subtotal				-	442,437	411,346	-	31,091
Emergency Management Performance Grants	97.042	EMW-2011-EP-00035	30,792	-	30,084	30,084	-	-
Emergency Management Performance Grants	97.042	2010-EP-E0-0015	50,610	(4,130)	4,130	-	-	-
Subtotal				(4,130)	34,214	30,084	-	-
				(4,130)	478,391	443,170	-	31,091
Total U.S. Department of Homeland Security								
<u>U.S. Department of Housing and Urban Development:</u>								
Passed through the Montana Department of Commerce:								
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-ED08-07	600,000	-	27,000	27,000	-	-
Total U.S. Department of Housing and Urban Development				-	27,000	27,000	-	-
<u>U.S. Department of Health and Human Services:</u>								
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services	93.994	12-07-5-01-005-0	9,576	-	9,576	9,192	(384)	-
Block Grant to the States	93.994	11-07-5-01-005-0	9,994	(3,180)	-	-	3,180	-
Maternal and Child Health Services	93.994	11-07-5-01-005-0	9,994	(3,180)	-	-	3,180	-
Subtotal				(3,180)	9,576	9,192	2,796	-
Immunization Grants	93.268	12-07-4-31-006-0	2,580	-	2,580	2,580	-	-
Immunization Grants	93.268	11-07-4-31-006-0	5,160	(2,580)	2,580	-	-	-
Subtotal				(2,580)	5,160	2,580	-	-
Public Health Emergency Preparedness	93.069	10-07-6-11-006-0	54,420	-	20,286	56,391	-	(36,105)
Public Health Emergency Preparedness	93.069	11-07-6-11-006-0	78,641	(24,536)	54,348	13,858	(15,954)	-
Subtotal				(24,536)	74,634	70,249	(15,954)	(36,105)
				(30,296)	89,370	82,021	(13,158)	(36,105)
Total U.S. Department of Health and Human Services								
<u>U.S. Department of Justice:</u>								
Direct Program:								
Public Safety Partnerships and Community Policing Grants	16.710	2011UMWX0106	188,637	-	62,879	47,269	-	15,610
Subtotal				-	62,879	47,269	-	15,610

CARBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Award/Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2011	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2012
Passed through the Southern Regional Children's Advocacy Center:								
Reduction and Prevention of Children's Exposure to Violence	16.730	2009-MU-MU-K005	23,145	-	18,838	23,145	-	(4,307)
Subtotal				-	18,838	23,145	-	(4,307)
Total U.S. Department of Justice								
<u>U.S. Department of the Interior:</u>								
Direct Program:								
Historic Preservation Fund - Grants in Aid	15.904	MT-11-015	5,500	-	5,500	5,500	-	-
Total U.S. Department of the Interior				-	5,500	5,500	-	-
<u>U.S. Department of Agriculture:</u>								
Direct Program:								
ARRA - Emergency Watershed Protection Program, Recovery Act	10.923	69-0325-11-051	68,686	-	68,686	68,686	-	-
Subtotal				-	68,686	68,686	-	-
Passed through the Montana State Auditor's Office:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	24,415	-	24,415	24,415	-	-
Subtotal				-	24,415	24,415	-	-
Passed through the Montana Department of Agriculture:								
Forest Health Protection	10.680	MDA 2012-732	33,500	-	-	-	-	-
Subtotal				-	24,415	24,415	-	-
Total pass-through programs				-	24,415	24,415	-	-
Total U.S. Department of Agriculture								
Total Federal Awards				\$ (60,400)	\$ 806,423	\$ 726,576	\$ (13,158)	\$ 6,289

NOTE A - BASIS OF ACCOUNTING

Note to Schedule of Expenditures of Federal Awards

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

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to Beartooth RC&D, a subrecipient organization of the County. \$27,000 in expenditures (CFDA No. 14.228) incurred by Beartooth RC&D were reimbursed by the County and included on the schedule as part of non-major program pass-through awards for the year ended June 30, 2012.

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

2011-6. HIGHWAY PLANNING AND CONSTRUCTION, CFDA NO. 20.205, GRANT STPE 5(42), GRANT PERIOD - YEAR ENDED JUNE 30, 2011

Criteria: As required by the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Condition: The County did not comply with the Davis-Bacon provisions of the program as we did not request certified payrolls, conduct employee interviews and verify all subcontractors paid prevailing wage rates.

Cause: Unknown.

Effect: Noncompliance with grant terms and conditions.

Questioned Cost: None.

Recommendation: The auditors recommended the County establish a process to ensure Davis-Bacon provisions are complied with.

Status: Implemented

2011-7. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

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

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

Cause: We are a small organization with limited resources.

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

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

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

2011-8. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

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

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

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

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

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

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

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

To the Board of County Commissioners
Carbon County
Red Lodge, Montana

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2012, which collectively comprise the government's basic financial statements and have issued our report thereon dated January 30, 2012. The report on the governmental activities and the road and bridge funds was qualified because we did not observe year-end inventory counts and the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Also, the report on the governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second sentence, 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.

Internal Control Over Financial Reporting

Management of the government is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2012-1 through 2012-3)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (Findings 2012-4 through 2012-7)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government'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 *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-4 through 2012-8.

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

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

This report is intended solely for the information and use of the management, the governing board, others within the entity, the Montana Department of Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Leary & Associates, PC

January 30, 2012

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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

To the Board of County Commissioners
Carbon County
Red Lodge, Montana

Compliance

We have audited Carbon County, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the government's major federal program for the year ended June 30, 2012. The government's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the government's management. Our responsibility is to express an opinion on the government's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the government's compliance with those requirements.

As described in item 20112-9 in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding allowable costs/costs principles that are applicable to its Disaster Grants-Public Assistance program. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
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 (CONTINUED)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-9 through 2012-11 to be material weaknesses.

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

This report is intended solely for the information and use of the management, the governing board, others within the entity, the Montana Department of Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Russ & Associates, PC

January 30, 2012

CARBON COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted?

yes no

FEDERAL AWARDS:

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants-Public Assistance

Dollar threshold used to distinguish between type A and type B programs?

\$300,000

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-1. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

2012-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

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

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

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2012.

Effect: The governmental activities liabilities are understated, net assets are overstated and expenses are understated.

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

2012-3. SEGREGATION OF DUTIES

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

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

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

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

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

2012-4. TAXES RECEIVABLE

Criteria: The County's tax accounting program has a procedure whereby the outstanding taxes in the tax accounting system and receivable balances in the accounting system are compared and a journal voucher generated. This procedure ensures that the tax system and accounting system stay in agreement.

Condition: The County Treasurer did not perform this procedure for the month of June 2012.

Cause: Unknown.

Effect: Errors may accumulate and may not be identified and attributed to a particular period. As of June 30, 2012, the general ledger taxes receivable were approximately \$4,500 higher than the Treasurer's Uncollected Tax Summary by Date.

Recommendation: The County Treasurer should perform the tax/accounting reconciliation at the end of each month. Differences, if any, should be resolved immediately.

2012-5. SCHOOL DISTRICT INVESTMENTS

Criteria: As provided by MCA, the County Treasurer is the custodian of all school district monies recorded in the books and records of the county. Cash and investments include three brokerage accounts for the Red Lodge school district.

Condition: The County Treasurer is not in control of the brokerage accounts. Further, the Treasurer does not receive a copy of the accounts in a timely manner, the balances recorded in the Treasurer's books are adjusted to fair value and monies in the accounts are invested in mutual funds.

Cause: Unknown.

Effect: The County Treasurer is not the custodian of the brokerage accounts. Further, the accounts are not in compliance with state law.

Recommendation: Control of the accounts should be turned over to the County Treasurer. Further, the County Treasurer should request an opinion from the county attorney to determine if the accounts are in compliance with state law.

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

2012-6. COMPETITIVE BIDDING

Criteria: Section 7-5-2301, MCA, specifies a contract for any purchase in excess of \$50,000 may not be entered into by a County governing body without first publishing a notice calling for bids.

Condition: The County entered into contracts to purchase sheriff vehicles (\$62,269) and purchase road gravel (\$52,569) without going through the formal bid process.

Cause: Unknown

Effect: Noncompliance with state procurement statutes.

Recommendation: A contract for any purchase in excess of \$50,000 should be formally advertised for bid in accordance with Section 7-5-2301, MCA.

2012-7. STATE PREVAILING WAGE RATES

Criteria: Per Section 18-2-422, MCA, all public works contracts and the bid specifications for those contracts must contain (1) a provision stating for each job classification the standard prevailing wage rate, including fringe benefits, that the contractors and employers shall pay during construction of the project; (2) a provision requiring each contractor and employer to maintain payroll records in a manner readily capable of being certified for submission to the Department of Labor & Industry for not less than 3 years after the contractor's or employer's completion of work on the project; and (3) a provision requiring each contractor to post a statement of all wages and fringe benefits.

Condition: The bids and contracts for the poultry barn, horse barn roof and gravel crushing projects did not contain the required state prevailing wage rate language.

Cause: Unknown

Effect: Failure to include these provisions in a public works contract relieves the contractor from the obligation to pay the standard prevailing wage rate and places the obligation on the public contracting agency. (MCA 18-2-403(9); ARM 24.17.144)

Recommendation: All public works contracts and the bid specifications for those contracts should contain the provisions that will satisfy the requirements of the Montana Prevailing Wage statutes.

2012-8. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT

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

Condition: We selected seven of the thirty-three FEMA approved Project Worksheets (PW's) for review, which constitutes approximately twenty percent of the total worksheets and forty percent of the total program dollars. For all PW's reviewed, the FEMA recommended forms or equivalent worksheets (Force Account Equipment Record, Force Account Labor schedules and Materials Summary Record worksheets) did not agree to the employee timesheets and supporting documentation required to be included in the project files was not present.

Questioned Costs: \$40,730

Cause: Unknown

Effect: Non-compliance with program terms and conditions

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

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOMELAND SECURITY:

2012-9. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT GRANT PERIOD - YEAR ENDED JUNE 30, 2012

Finding 2012-8 applies to this federal award program.

2012-10. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2012-01 applies to these federal award programs.

2012-11. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2012-03 applies to these federal award programs.

CARBON COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

PRIOR YEAR FINANCIAL STATEMENT FINDINGS	STATUS
2011-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2011-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2011-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2011-4. PROTESTED TAXES	IMPLEMENTED
2011-5. HIGHWAY PLANNING AND CONSTRUCTION, CFDA NO. 20.205, GRANT STPE 5(42), GRANT PERIOD - YEAR ENDED JUNE 30, 2011	IMPLEMENTED