

CARBON COUNTY
RED LODGE, MONTANA
FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CARBON COUNTY

ORGANIZATION

June 30, 2013

BOARD OF COUNTY COMMISSIONERS

John Grewell	Board Chairman
Douglas Tucker	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.

CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions

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

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

Qualified Opinions

In our opinion, except for the effects of the matter described in the first paragraph under the heading "Basis for Qualified Opinions" and except for the possible effects of the matter discussed in the second paragraph under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the road fund and the bridge fund of the government, as of June 30, 2013, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Unmodified Opinions

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, 2013, 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.

Emphasis of Matters

As described in Note 1 to the financial statements, the government adopted the provisions of the GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2014, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Leary & Associates, PC

February 5, 2014

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, 2013. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

- Net position of our governmental activities increased by \$830,967 or 6 percent.
- During the year, our government had expenses that were \$1,200,191 more than the \$7,600,947 generated in tax and other general revenues for governmental programs.
- Total cost of all of programs decreased \$80,817.
- Total governmental revenues were \$9,632,105, an increase of 5% over the prior year, while governmental expenditures decreased to \$8,801,138, a decrease of 1% over the prior year.
- The General fund reported an increase this year of \$126,849 in fund balance.
- 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 Position 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. For governmental activities, fund statements tell how these services were financed in the short term, as well as, what remains for future spending. Fund financial statements 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 Position (page 9) and the Statement of Activities (page 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 Position and Statement of Activities) report net position and changes in it. You can think of net position – the difference between assets and liabilities – as one way to measure the County's financial health, or financial position. Over time, increases or decreases in net position 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 Position 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 these 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 Position 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 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 position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$15,316,723, as of June 30, 2013.

Net position of our governmental activities increased by \$830,967 or 6 percent.

Of the County's total net position (\$15,316,723), our investment in capital assets accounts for \$8,685,880 or 57%. 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 position accounts for \$1,885,840 or 12% of the total net position. Unrestricted net position is 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 position and changes in net position follows:

Carbon County's Net Position

	2013	2012	Change
Current and other assets	\$ 7,193,641	\$ 8,018,478	\$ (824,837)
Capital assets	8,685,880	7,048,036	1,637,844
Total assets	15,879,521	15,066,514	813,007
Other liabilities	44,465	95,269	(50,804)
Long-term liabilities outstanding	518,333	485,489	32,844
Total liabilities	562,798	580,758	(17,960)
Net position:			
Net investment in capital assets	8,685,880	7,048,036	1,637,844
Restricted	4,745,003	5,019,984	(274,981)
Unrestricted	1,885,840	2,417,736	(531,896)
	\$ 15,316,723	\$ 14,485,756	\$ 830,967

Carbon County's Changes in Net Position

	2013	2012	Change
Revenues:			
Program revenues:			
Charges for services	\$ 716,351	\$ 729,152	\$ (12,801)
Operating grants and contributions	700,753	983,129	(282,376)
Capital grants and contributions	614,054	52,317	561,737
General revenues:			
Taxes	4,895,430	4,661,728	233,702
Intergovernmental	2,486,667	2,474,033	12,634
Interest	42,926	50,692	(7,766)
Miscellaneous	57,908	83,887	(25,979)
Gain on disposal of capital assets	118,016	141,075	(23,059)
Total revenues	9,632,105	9,176,013	456,092
Expenses:			
General government	2,312,057	2,314,416	(2,359)
Public safety	2,341,777	2,246,233	95,544
Public works	3,253,863	3,559,000	(305,137)
Public health	198,671	174,469	24,202
Social and economic services	118,769	119,946	(1,177)
Culture and recreation	336,904	328,878	8,026
Housing and community development	123,545	27,000	96,545
Other current charges	115,552	112,013	3,539
Total expenses	8,801,138	8,881,955	(80,817)
Change in net position	830,967	294,058	536,909
Net position, beginning	14,485,756	14,191,698	294,058
Net position, ending	\$ 15,316,723	\$ 14,485,756	\$ 830,967

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, 2013, Carbon County's governmental funds reported combined fund balances of \$6,636,813, a decrease of \$748,945 from the prior year. \$1,989,188 is unassigned and the remaining \$4,647,625 is non-spendable, restricted or committed.

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, 2013, the general fund balance was \$1,989,188, an increase from the prior year of \$126,849 or 7%.

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 \$1,350,501, a decrease of \$414,784 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 fund balance was \$672,659, an increase of \$12,948 over the prior year.

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 \$788,311, an increase of \$7,878 over the prior year.

General Fund Budgetary Highlights.

General fund expenditures were \$835,695 less than the amount budgeted. Revenues received were \$52,537 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, 2013 was \$8,685,880. This investment in capital assets includes land, buildings/improvements, machinery and equipment, and infrastructure. During fiscal year 2013 significant capital additions included construction of a new road shop in Joliet which also houses the County Extension Office, a remodel project at the Court House including security doors for the Sheriff and County Attorney and additional office space for the Sheriff's Office, replacement of the Shane Ridge Road bridge damaged in spring flooding of 2011, the replacement of the 19th Street bridge in Red Lodge, and the purchase of Sheriff office 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, 2013 was \$518,333. 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 2013 increased by 4.01% and our rural taxable valuation for road purposes increased by 4.2%. The revenues from our PILT, Federal Mineral Royalties, and Oil & Gas Production programs decreased in total by \$17,651 from the previous year due in large part to sequestration of PILT funds. These funds are very valuable to help offset the increase 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 budget year 2013-2014, we again kept our mills at the maximum level allowed by state statute, in order to cover the increasing costs of running a county government.

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.

We started the process of updating the Carbon County Growth Policy and Development Regulations in January 2014. This process will be facilitated by CTA Red Lodge who is providing contract planning services for Carbon County. A Community Development Block Grant of \$30,000 will help pay for expenses related to updating these important planning documents.

Carbon County plans to improve emergency dispatch response with the implementation of a Simulcast Communications System to connect repeaters throughout the County.

We have been in negotiations with Billings Clinic to purchase the old Red Lodge Clinic building to house those offices currently housed in the Annex. The building will be purchased over fiscal year 2014 and fiscal year 2015, and will require remodeling to fit the County's needs. The single story structure will allow ADA access to all offices and will better accommodate the staff and storage needs of those offices.

We are continuing to study our bridges and replace them as needed and as funding will allow. Carbon County received Treasure State Endowment Program (TSEP) grants to partially fund the replacement of Montauqua Road bridge, Poverty Flat bridge, and to complete approach paving on the 19th Street bridge in Red Lodge. Carbon County will again be applying for TSEP funding to help improve bridge infrastructure.

Carbon County is working with the US department of Transportation Western Federal Lands Division (WFL), to reconstruct West Fork Road from the intersection of Highway 212 to the intersection with Ski Run Road. This project has been authorized for funding through the Federal Lands Access Program (13.4% match requirement) and the Forest Highway Program. The Forest Highway Program has no match requirement which has significantly reduced the County's match contribution for the project. Carbon County will be providing \$355,630 in match from Red Lodge Mountain resort tax revenues and in-kind services including Right-of-Way acquisition and chip sealing pavement. We are currently in the process appraising land to acquire the necessary right-of-ways and temporary construction easements; construction is expected to begin in the summer of 2015.

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@carboncomt.com

CARBON COUNTY
STATEMENT OF NET POSITION
June 30, 2013

ASSETS	
Cash and equivalents	\$ 3,629,786
Investments	2,290,391
Receivables:	
Taxes and assessments	512,363
Governments	445,452
Option tax repayment	102,578
Inventories	183,169
Prepays	29,902
Capital assets:	
Land and construction in progress	167,761
Capital assets, net of accumulated depreciation	<u>8,518,119</u>
Total assets	<u>15,879,521</u>
LIABILITIES	
Accounts payable-vendors	44,465
Long-term liabilities:	
Compensated absences:	
Due within one year	51,833
Due in more than one year	<u>466,500</u>
Total liabilities	<u>562,798</u>
NET POSITION	
Net investment in capital assets	8,685,880
Restricted for:	
General government	382,637
Public safety	1,134,554
Public works	2,886,861
Public health	53,545
Social and economic	68,828
Culture and recreation	181,399
Housing and community development	2,985
Capital projects	34,194
Unrestricted	<u>1,885,840</u>
Total net position	<u>\$ 15,316,723</u>

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,312,057	\$ 222,610	\$ 5,667	\$ -	\$ (2,083,780)
Public safety	2,341,777	121,986	197,459	-	(2,022,332)
Public works	3,253,863	356,873	349,400	614,054	(1,933,536)
Public health	198,671	13,488	132,901	-	(52,282)
Social and economic services	118,769	894	-	-	(117,875)
Culture and recreation	336,904	500	12,326	-	(324,078)
Housing and community development	123,545	-	3,000	-	(120,545)
Other current charges	115,552	-	-	-	(115,552)
Total	\$ 8,801,138	\$ 716,351	\$ 700,753	\$ 614,054	(6,769,980)
General revenues:					
					4,895,430
					2,486,667
					42,926
					57,908
					118,016
					<u>7,600,947</u>
					830,967
					<u>14,485,756</u>
					<u>\$ 15,316,723</u>

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Road	Bridge	Public Safety	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,167,255	\$ 745,229	\$ 394,733	\$ 438,562	\$ 884,007	\$ 3,629,786
Investments	736,537	470,239	249,076	276,732	557,807	2,290,391
Receivables:						
Taxes and assessments	109,236	123,107	64,544	129,614	85,862	512,363
Governments	-	-	-	73,017	372,435	445,452
Option tax overpayment	102,578	-	-	-	-	102,578
Inventories	-	135,033	48,136	-	-	183,169
Prepays	-	-	-	-	29,902	29,902
Total assets	\$ 2,115,606	\$ 1,473,608	\$ 756,489	\$ 917,925	\$ 1,930,013	\$ 7,193,641
LIABILITIES						
Accounts payable-vendors	\$ 17,182	\$ -	\$ 19,286	\$ -	\$ 7,997	\$ 44,465
Total liabilities	17,182	-	19,286	-	7,997	44,465
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - taxes and assessments	109,236	123,107	64,544	129,614	85,862	512,363
Total deferred inflows of resources	109,236	123,107	64,544	129,614	85,862	512,363
FUND BALANCES						
Nonspendable:						
Prepays	-	-	-	-	29,902	29,902
Inventory	-	135,033	48,136	-	-	183,169
Restricted for:						
General government	-	-	-	-	366,090	366,090
Public safety	-	-	-	788,311	170,476	958,787
Public works	-	1,215,468	624,523	-	655,176	2,495,167
Public health	-	-	-	-	53,479	53,479
Social and economic services	-	-	-	-	63,199	63,199
Culture and recreation	-	-	-	-	154,904	154,904
Housing and community development	-	-	-	-	2,985	2,985
Capital projects	-	-	-	-	34,194	34,194
Committed for:						
General government	-	-	-	-	305,749	305,749
Unassigned	1,989,188	-	-	-	-	1,989,188
Total fund balances	1,989,188	1,350,501	672,659	788,311	1,836,154	6,636,813
Total liabilities, deferred inflows resources and fund balances	\$ 2,115,606	\$ 1,473,608	\$ 756,489	\$ 917,925	\$ 1,930,013	\$ 7,193,641

CARBON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balances, governmental funds	\$ 6,636,813
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	8,685,880
Other long-term assets are unavailable to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	512,363
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(518,333)</u>
Net position of governmental activities	<u>\$ 15,316,723</u>

CARBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	Road	Bridge	Public Safety	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,438,567	\$ 1,077,682	\$ 559,112	\$ 1,122,360	\$ 978,980	\$ 5,176,701
Fines and forfeitures	71,283	-	-	-	5,381	76,664
Licenses and permits	13,535	8,906	-	10,830	-	33,271
Intergovernmental	218,646	302,338	241,770	190,028	2,789,840	3,742,622
Charges for services	191,655	-	6,500	28,463	123,615	350,233
Investment earnings	33,854	4,769	-	-	4,303	42,926
Miscellaneous	28,963	11,503	2,789	6,456	8,699	58,410
Total revenues	1,996,503	1,405,198	810,171	1,358,137	3,910,818	9,480,827
EXPENDITURES						
Current:						
General government	2,004,189	-	-	-	230,654	2,234,843
Public safety	97,590	-	-	1,460,617	594,930	2,153,137
Public works	13,729	1,550,140	811,162	-	374,468	2,749,499
Public health	78,564	-	-	-	120,107	198,671
Social and economic services	43,033	-	-	-	75,736	118,769
Culture and recreation	-	-	-	-	330,399	330,399
Housing and community development	-	-	-	-	123,545	123,545
Other current charges	115,552	-	-	-	-	115,552
Capital outlay	114,518	1,133,310	505,481	69,108	410,098	2,232,515
Total expenditures	2,467,175	2,683,450	1,316,643	1,529,725	2,259,937	10,256,930
Excess (deficiency) of revenues over expenditures	(470,672)	(1,278,252)	(506,472)	(171,588)	1,650,881	(776,103)
OTHER FINANCING SOURCES (USES)						
Insurance recoveries	-	-	-	3,108	-	3,108
Sale of capital assets	-	9,825	-	10,550	3,675	24,050
Transfers in	597,521	853,643	519,420	165,808	314,926	2,451,318
Transfers out	-	-	-	-	(2,451,318)	(2,451,318)
Total other financing sources (uses)	597,521	863,468	519,420	179,466	(2,132,717)	27,158
Net change in fund balances	126,849	(414,784)	12,948	7,878	(481,836)	(748,945)
Fund balances - beginning	1,862,339	1,765,285	659,711	780,433	2,317,990	7,385,758
Fund balances - ending	\$ 1,989,188	\$ 1,350,501	\$ 672,659	\$ 788,311	\$ 1,836,154	\$ 6,636,813

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, 2013

Net change in fund balances - total governmental funds	\$ (748,945)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which capital outlay (\$2,232,515) exceeded depreciation (\$746,987) in the current period.	1,485,528
The net effect of various transactions involving capital assets (i.e., sales, donations, insurance and trade-ins) is to increase net position.	152,316
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(25,088)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	<u>(32,844)</u>
Change in net position of governmental activities	<u><u>\$ 830,967</u></u>

CARBON COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 6,116,664	\$ 471,008
Investments	3,859,609	-
Taxes and assessments receivable	-	1,242,307
	<u>9,976,273</u>	<u>\$ 1,713,315</u>
LIABILITIES		
Accounts payable	-	\$ 69,080
Due to special districts	-	219,279
Due to state	-	305,209
Due to schools	-	892,245
Due to cities/towns	-	227,502
	<u>-</u>	<u>\$ 1,713,315</u>
NET POSITION		
Held in trust for external investment pool participants	<u>\$ 9,976,273</u>	

CARBON COUNTY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2013

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 8,353,414
Investment earnings:	
Interest	62,819
Total net investment earnings	62,819
Total additions	8,416,233
DEDUCTIONS	
Distributions to participants	7,956,559
Total deductions	7,956,559
Change in net assets	459,674
Net position - beginning	9,516,599
Net position - ending	\$ 9,976,273

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 adopted provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement resulted in presentation changes in the government-wide financial statements and the proprietary and fiduciary fund financial statements.

The government adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement resulted in 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.

The government's significant accounting policies are described below.

Reporting Entity

For financial reporting purposes, the government has included all funds, organizations, agencies, boards, commissions and authorities. The government has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the government are such that exclusion would cause the government's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. Based on the criteria established by the Governmental Accounting Standards Board, the government has no component units.

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 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, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 61 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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories and Prepaids

All inventories are valued at cost. Inventories are recorded as expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported 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 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.

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

<u>Assets</u>	<u>Years</u>
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 position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Net Position

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

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

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

Unrestricted – any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Fund Balance

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

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

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

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

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

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

The governing body has by resolution authorized the 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	\$ 5,920,177
Fiduciary funds	<u>10,447,281</u>
	<u>\$ 16,367,458</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2013, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 2,000	\$ -	\$ 2,000
Cash in banks:			
Demand deposits	8,162,497	-	8,162,497
Time deposits	-	3,700,000	3,700,000
Savings deposits	(57,488)	-	(57,488)
Brokers:			
U.S. Government securities	-	2,450,000	2,450,000
Repurchase agreement	171,659	-	171,659
Short-term Investment Program (STIP)	1,938,790	-	1,938,790
	<u>\$ 10,217,458</u>	<u>\$ 6,150,000</u>	<u>\$ 16,367,458</u>

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, 2013, \$8,637,659 of the government's bank balance of \$12,845,366 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank's trust department not in the government's name	<u>\$ 8,637,659</u>
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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, 2013, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2013 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	.6-.75%	Various	\$ 2,450,000	\$ 2,450,000	\$ 2,415,476	39.84%
Mutual funds	.45-1.50%	Various	3,700,000	3,700,000	3,700,000	60.16%
				<u>\$ 6,150,000</u>	<u>\$ 6,115,476</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.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 500,000	\$ -	\$ 1,950,000	\$ 2,450,000	\$ 2,415,476
Repurchase agreement	-	-	171,659	171,659	171,659
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 2,121,659</u>	2,621,659	2,587,135
Uncategorized: STIP				1,938,790	1,938,790
				<u>\$ 4,560,449</u>	<u>\$ 4,525,925</u>

Following is the condensed schedule of changes in net position for the investment pool for the year ended June 30, 2013:

	Internal	External	Total
Net position - beginning of year	\$ 7,521,908	\$ 9,516,599	\$ 17,038,507
Contributions from participants	6,402,767	8,353,414	14,756,181
Investment earnings	42,926	62,819	105,745
Distributions to participants	(7,576,416)	(7,956,559)	(15,532,975)
Net position - end of year	<u>\$ 6,391,185</u>	<u>\$ 9,976,273</u>	<u>\$ 16,367,458</u>

Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated				
Land	\$ 113,377	\$ -	\$ -	\$ 113,377
Construction-in-progress	75,340	19,286	(40,242)	54,384
Total capital assets, not being depreciated	<u>188,717</u>	<u>19,286</u>	<u>(40,242)</u>	<u>167,761</u>
Capital assets, being depreciated				
Buildings/improvements	2,725,402	799,056	-	3,524,458
Machinery and equipment	6,416,422	835,208	(426,487)	6,825,143
Infrastructure	2,518,412	820,237	-	3,338,649
Total capital assets, being depreciated	<u>11,660,236</u>	<u>2,454,501</u>	<u>(426,487)</u>	<u>13,688,250</u>
Less accumulated depreciation for:				
Buildings/improvements	(831,141)	(81,696)	-	(912,837)
Machinery and equipment	(3,533,691)	(568,196)	377,773	(3,724,114)
Infrastructure	(436,085)	(97,095)	-	(533,180)
Total accumulated depreciation	<u>(4,800,917)</u>	<u>(746,987)</u>	<u>377,773</u>	<u>(5,170,131)</u>
Total capital assets, being depreciated, net	<u>6,859,319</u>	<u>1,707,514</u>	<u>(48,714)</u>	<u>8,518,119</u>
Capital assets, net	<u>\$ 7,048,036</u>	<u>\$ 1,726,800</u>	<u>\$ (88,956)</u>	<u>\$ 8,685,880</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

General government	\$ 97,983
Public safety	155,194
Public works	487,157
Culture and recreation	<u>6,653</u>
 Total depreciation	 <u><u>\$ 746,987</u></u>

Transfers

Interfund transfers consisted of the following:

	Transfers In	Transfers Out	Total
General	\$ 597,521	\$ -	\$ 597,521
Road	853,643	-	853,643
Bridge	519,420	-	519,420
Public Safety	165,808	-	165,808
Nonmajor governmental funds	<u>314,926</u>	<u>(2,451,318)</u>	<u>(2,136,392)</u>
	<u><u>\$ 2,451,318</u></u>	<u><u>\$ (2,451,318)</u></u>	<u><u>\$ -</u></u>

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, 2013. Scheduled minimum rental payments for succeeding years ending June 30, are as follows:

Year	
2013	\$ 18,292
2014	18,292
2015	18,292
2016	18,292

Long-Term Debt

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
Compensated absences	<u>\$ 485,489</u>	<u>\$ 32,844</u>	<u>\$ -</u>	<u>\$ 518,333</u>	<u>\$ 51,833</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.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 plans 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, 2013, 2012 and 2011 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:

	2013	2012	2011
SRS	\$ 102,007	\$ 96,719	\$ 88,537
PERS	365,888	350,433	347,385
	\$467,895	\$447,152	\$435,922

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 69 - Government Combinations and Disposals of Government Operations. Effective Date: The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

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, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,396,498	\$1,396,498	\$1,438,567
Fines and forfeitures	73,100	73,100	71,283
Licenses and permits	12,500	12,500	13,535
Intergovernmental	216,513	216,513	218,646
Charges for services	183,355	183,355	191,655
Investment earnings	37,000	37,000	33,854
Miscellaneous	25,000	25,000	28,963
Total revenues	<u>1,943,966</u>	<u>1,943,966</u>	<u>1,996,503</u>
EXPENDITURES			
Current:			
General government	2,339,140	2,339,140	2,004,189
Public safety	195,950	195,950	97,590
Public works	20,000	20,000	13,729
Public health	81,996	81,996	78,564
Social and economic services	49,784	49,784	43,033
Other current charges	133,000	133,000	115,552
Capital outlay	483,000	483,000	114,518
Total expenditures	<u>3,302,870</u>	<u>3,302,870</u>	<u>2,467,175</u>
Excess (deficiency) of revenues over expenditures	<u>(1,358,904)</u>	<u>(1,358,904)</u>	<u>(470,672)</u>
OTHER FINANCING SOURCES			
Transfers in	597,521	597,521	597,521
Total other financing sources	<u>597,521</u>	<u>597,521</u>	<u>597,521</u>
Net change in fund balance	<u>\$ (761,383)</u>	<u>\$ (761,383)</u>	126,849
Fund balance - beginning			<u>1,862,339</u>
Fund balance - ending			<u>\$ 1,989,188</u>

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Road Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$1,069,010	\$ 1,069,010	\$ 1,077,682
Licenses and permits	1,200	1,200	8,906
Intergovernmental	328,413	328,413	302,338
Charges for services	300	300	-
Investment earnings	4,500	4,500	4,769
Miscellaneous	2,000	2,000	11,503
Total revenues	<u>1,405,423</u>	<u>1,405,423</u>	<u>1,405,198</u>
EXPENDITURES			
Current:			
Public works	1,809,600	1,809,600	1,550,140
Capital outlay	<u>1,106,000</u>	<u>1,106,000</u>	<u>1,133,310</u>
Total expenditures	<u>2,915,600</u>	<u>2,915,600</u>	<u>2,683,450</u>
Excess (deficiency) of revenues over expenditures	<u>(1,510,177)</u>	<u>(1,510,177)</u>	<u>(1,278,252)</u>
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	9,825
Transfers in	<u>853,644</u>	<u>853,644</u>	<u>853,643</u>
Total other financing sources	<u>853,644</u>	<u>853,644</u>	<u>863,468</u>
Net change in fund balance	<u>\$ (656,533)</u>	<u>\$ (656,533)</u>	(414,784)
Fund balance - beginning			<u>1,765,285</u>
Fund balance - ending			<u>\$ 1,350,501</u>

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Bridge Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 556,802	\$ 556,802	\$ 559,112
Intergovernmental	253,695	253,695	241,770
Charges for services	-	-	6,500
Miscellaneous	200	200	2,789
Total revenues	<u>810,697</u>	<u>810,697</u>	<u>810,171</u>
EXPENDITURES			
Current:			
Public works	960,800	941,514	811,162
Capital outlay	<u>502,000</u>	<u>521,286</u>	<u>505,481</u>
Total expenditures	<u>1,462,800</u>	<u>1,462,800</u>	<u>1,316,643</u>
Excess (deficiency) of revenues over expenditures	<u>(652,103)</u>	<u>(652,103)</u>	<u>(506,472)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>519,420</u>	<u>519,420</u>	<u>519,420</u>
Total other financing sources	<u>519,420</u>	<u>519,420</u>	<u>519,420</u>
Net change in fund balance	<u>\$ (132,683)</u>	<u>\$ (132,683)</u>	12,948
Fund balance - beginning			<u>659,711</u>
Fund balance - ending			<u>\$ 672,659</u>

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$1,117,685	\$ 1,117,685	\$ 1,122,360
Licenses and permits	4,000	4,000	10,830
Intergovernmental	184,246	184,246	190,028
Charges for services	39,257	39,257	28,463
Miscellaneous	5,000	5,000	6,456
Total revenues	<u>1,350,188</u>	<u>1,350,188</u>	<u>1,358,137</u>
EXPENDITURES			
Current:			
Public safety	1,664,030	1,673,698	1,460,617
Capital outlay	70,000	70,000	69,108
Total expenditures	<u>1,734,030</u>	<u>1,743,698</u>	<u>1,529,725</u>
Excess (deficiency) of revenues over expenditures	<u>(383,842)</u>	<u>(393,510)</u>	<u>(171,588)</u>
OTHER FINANCING SOURCES			
Insurance recoveries	-	-	3,108
Sale of capital assets	-	-	10,550
Transfers in	165,808	175,476	165,808
Total other financing sources	<u>165,808</u>	<u>175,476</u>	<u>179,466</u>
Net change in fund balance	<u>\$ (218,034)</u>	<u>\$ (218,034)</u>	7,878
Fund balance - beginning			<u>780,433</u>
Fund balance - ending			<u>\$ 788,311</u>

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2013

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, 2013

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, 2012	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2013
<u>U.S. Department of Transportation:</u>								
Passed through the Montana Department of Transportation:								
Highway Planning and Construction	20.205	STPE 5(46)	\$ 107,043	\$ -	\$ 85,336	\$ 104,368	\$ -	\$ (19,032)
Total U.S. Department of Transportation				-	85,336	104,368	-	(19,032)
<u>U.S. Department of Homeland Security:</u>								
Passed through the Montana Department of Military Affairs - Disaster & Emergency Services Division:								
Disaster Grants - Public Assistance	97.036	FEMA-1996-DR-MT	712,528	31,091	25,896	301,182	(1,744)	(245,939)
Subtotal				31,091	25,896	301,182	(1,744)	(245,939)
Emergency Management Performance Grants	97.042	EMW-2011-EP-00035	30,792	-	707	-	(707)	-
Subtotal				-	707	-	(707)	-
Total U.S. Department of Homeland Security				31,091	26,603	301,182	(2,451)	(245,939)
<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	-	3,000	3,000	-	-
Total U.S. Department of Housing and Urban Development				-	3,000	3,000	-	-
<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 Block Grant to the States	93.994	13-07-5-01-005-0	9,342	-	9,342	9,342	-	-
Subtotal				-	9,342	9,342	-	-
Immunization Grants	93.268	13-07-4-31-104-0	5,160	-	2,580	2,580	-	-
Immunization Grants	93.268	13-07-4-31-006-0	2,580	-	2,580	1,660	(920)	-
Subtotal				-	5,160	4,240	(920)	-
Public Health Emergency Preparedness	93.069	12-07-6-11-006-0	54,420	(36,105)	17,174	-	18,931	-
Public Health Emergency Preparedness	93.069	13-07-6-11-006-0	103,861	-	84,126	74,545	(9,581)	-
Subtotal				(36,105)	101,300	74,545	9,350	-
Total U.S. Department of Health and Human Services				(36,105)	115,802	88,127	8,430	-
<u>U.S. Department of Justice:</u>								
Direct Program:								
Public Safety Partnerships and Community Policing Grants	16.710	2011UMWX0106	188,637	15,610	-	66,297	-	(50,687)
Subtotal				15,610	-	66,297	-	(50,687)
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	(4,307)	4,307	-	-	-
Subtotal				(4,307)	4,307	-	-	-
Total U.S. Department of Justice				11,303	4,307	66,297	-	(50,687)

CARBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

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, 2012	Receipts	Expenditures/ Disbursed	Returned to Grantor/ Other	Balance June 30, 2013
U.S. Department of the Interior:								
Direct Program:								
Historic Preservation Fund - Grants in Aid	15.904	MT-13-015	5,500	-	5,500	5,500	-	-
Total U.S. Department of the Interior				-	5,500	5,500	-	-
U.S. Department of Agriculture:								
Passed through the Montana State Auditor's Office:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	20,703	-	20,703	20,703	-	-
Subtotal				-	20,703	20,703	-	-
Passed through the Montana Department of Agriculture:								
Forest Health Protection	10.680	MDA 2012-732	33,500	-	12,339	12,339	-	-
Subtotal				-	12,339	12,339	-	-
Total U.S. Department of Agriculture				-	33,042	33,042	-	-
Total Federal Awards				<u>\$ 6,289</u>	<u>\$ 273,590</u>	<u>\$ 601,516</u>	<u>\$ 5,979</u>	<u>\$ (315,658)</u>

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

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

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to Beartooth RC&D, a subrecipient organization of the County. \$3,000 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, 2013.

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

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

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

Condition: The auditors selected 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.

Status: This finding no longer applies.

2012-10. 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.

2012-11. 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.

OLNESS & ASSOCIATES, P. C.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated February 5, 2014. The report included explanatory paragraphs to describe changes in accounting principles. Also, 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. Additionally, the report on the governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 2013-1 through 2013-3)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Government's Response to Findings

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

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

Purpose of this Report

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

Olness & Associates, PC

February 5, 2014

OLNESS & ASSOCIATES, P. C.

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

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

Report on Compliance for the Major Federal Program

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, 2013. 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.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the government, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-4 and 2013-5 to be material weaknesses.

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

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

O'Leary & Associates, PC

February 5, 2014

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

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: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? √ yes no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
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

2013-1. 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.

Client Response: Carbon County employees and management have the necessary qualifications and training to fulfill their assigned daily functions, but do not have the skills and knowledge to apply Generally Accepted Accounting Principles (GAAP) in relation to the preparation of the financial statements. The cost verses the benefits of hiring qualified staff to prepare GAAP

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

financial statements and footnote disclosures is not cost effective. The County does not have the money or space for such a staff; our resources are limited.

2013-2. 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, 2013.

Effect: The governmental activities liabilities are understated, net position is overstated and total expenses would change.

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

Client Response: Carbon County talked to an actuarial firm in 2013 regarding "Actuarial Valuation of OPEB for GASB 45". The quote we received was \$1,600. The Commissioners decided that the amount of liability Carbon County would incur from this valuation and the expense involved in determining that liability, would not be worth the cost and not reflect true accuracy.

2013-3. 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.

Client Response: Segregation of duties is an area that Carbon County is continually trying to improve on. Accounts payable, payroll, and tax reconciliation are segregated. Management will continue to monitor this area and implement effective controls.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOMELAND SECURITY:

2013-4. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2013-01 applies to this federal award program.

2013-5. ALL MAJOR PROGRAMS AS DESCRIBED IN SECTION I-SUMMARY OF AUDITOR RESULTS

Finding 2013-03 applies to this federal award program.

CARBON COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2012-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2012-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2012-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2012-4. TAXES RECEIVABLE	IMPLEMENTED
2012-5. SCHOOL DISTRICT INVESTMENTS	IMPLEMENTED
2012-6. COMPETITIVE BIDDING	IMPLEMENTED
2012-7. STATE PREVAILING WAGE RATES	IMPLEMENTED
2012-8. DISASTER GRANTS – PUBLIC ASSISTANCE, CFDA No. 97.036, GRANT No. FEMA-1996-DR-MT	FINDING NO LONGER APPLIES