

**CARBON COUNTY
RED LODGE, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

**2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102**

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CARBON COUNTY

ORGANIZATION

June 30, 2008

BOARD OF COUNTY COMMISSIONERS

David Davidson	Board Chairman
Douglas Tucker	Commissioner
John Prinkki	Commissioner

ELECTED OFFICIALS

Linda Ladvala	Clerk and Recorder
Jane Swanson-Webb	County Treasurer
Thomas Rieger	County Sheriff/Coroner
Robert Eddleman	County Attorney
Jerry Scott	County Superintendent
Susan Godbey	Clerk of District Court
Johnny Seiffert	Justice of the Peace

OLNESS & ASSOCIATES, P. C.

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

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Carbon County, Red Lodge, Montana (the government) as of and for the year ended June 30, 2008, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities and road and bridge funds, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and road and bridge funds of the government, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund, excluding the road and bridge funds, and aggregate remaining fund information the government, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Olness & Associates, PC

November 26, 2008

OLNESS & ASSOCIATES, P. C.

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

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Olness & Associates, PC

November 26, 2008

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, 2007. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

- Net assets of our governmental activities increased by \$459,255, or nearly 4 percent.
- During the year, our government had expenses that were \$712,485 more than the \$6,006,156 generated in tax and other revenues for governmental programs.
- Total cost of all of programs increased \$543,192.
- The General fund reported an increase this year of \$24,058 in its fund balance.
- Total governmental revenues were \$6,952,156, an increase of 5% over the prior year, while governmental expenditures increased to \$6,984,418, an increase of 8% over the prior year.
- There were no General fund budget amendments this year. Carbon County continues to keep its capital equipment, buildings, roads and bridges in good condition and up to date. We remain debt free.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements of Carbon County. The Statement of Net Assets and the Statement of Activities provide information about the activities of Carbon County as a whole and present a longer-term view of the finances. 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 Assets and the Statement of Activities (pages 8 and 9) report information about Carbon County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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 10 and 12) 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

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

meet legal responsibilities for using certain taxes, grants and other money. Carbon County utilizes the following funds:

Governmental funds – Basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Carbon County describes the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations (pages 11 and 13, respectively).

Carbon County maintains individual government 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.

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 16 of this report.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$11,731,503 as of June 30, 2008.

Net assets increased \$459,255 or 4%, mainly from increases in property tax revenues and oil and gas production. Property taxes increased due to increasing valuations of existing properties and a continued increase in new construction. Our county mills increased by 3.81 mills.

Of the County's total net assets (\$11,731,503), our investment in capital assets account for \$5,673,796 or 48%. Capital assets reflect the County's investments in land, buildings, improvements, infrastructure and machinery and equipment. Carbon County uses these capital assets to provide services to citizens and the community; consequently these assets are not available for future spending.

Unrestricted net assets account for \$6,057,707 or 52% of the total net assets. Unrestricted net assets are primarily used as reserves that are 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 as reserves to provide against unforeseen costs or events. A recap of the County's net assets and changes in net assets follows:

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Carbon County's Net Assets

	2008	2007	Change
Current and other assets	\$ 6,493,001	\$ 6,393,588	\$ 99,413
Capital assets	<u>5,673,796</u>	<u>5,333,486</u>	<u>340,310</u>
Total assets	<u>12,166,797</u>	<u>11,727,074</u>	<u>439,723</u>
Other liabilities	20,375	47,214	(26,839)
Long-term liabilities outstanding	<u>414,919</u>	<u>407,612</u>	<u>7,307</u>
Total liabilities	<u>435,294</u>	<u>454,826</u>	<u>(19,532)</u>
Net assets:			
Invested in capital assets	5,673,796	5,333,486	340,310
Unrestricted	<u>6,057,707</u>	<u>5,938,762</u>	<u>118,945</u>
	<u>\$ 11,731,503</u>	<u>\$ 11,272,248</u>	<u>\$ 459,255</u>

Carbon County's Changes in Net Assets

	2008	2007	Change
Revenues:			
Program revenues:			
Charges for services	\$ 527,473	\$ 522,043	\$ 5,430
Operating grants and contributions	591,067	486,040	105,027
Capital grants and contributions	53,200	82,080	(28,880)
Program revenues:			
General revenues:			
Taxes	3,617,967	3,423,857	194,110
Licenses and permits	-	1,535	(1,535)
Intergovernmental	1,933,199	1,860,273	72,926
Interest	277,592	327,374	(49,782)
Miscellaneous	87,021	69,136	17,885
Gain on disposal of capital assets	<u>90,377</u>	<u>76,754</u>	<u>13,623</u>
Total revenues	<u>7,177,896</u>	<u>6,849,092</u>	<u>328,804</u>
Expenses:			
General government	1,936,271	1,814,193	122,078
Public safety	1,615,216	1,431,407	183,809
Public works	2,720,051	2,536,745	183,306
Public health	124,053	128,048	(3,995)
Social and economic services	95,092	87,318	7,774
Culture and recreation	204,958	176,986	27,972
Housing and community development	20,000	-	20,000
Other current charges	<u>3,000</u>	<u>752</u>	<u>2,248</u>
Total expenses	<u>6,718,641</u>	<u>6,175,449</u>	<u>543,192</u>
Change in net assets	459,255	673,643	(214,388)
Net assets, beginning	<u>11,272,248</u>	<u>10,598,605</u>	<u>673,643</u>
Net assets, ending	<u>\$ 11,731,503</u>	<u>\$ 11,272,248</u>	<u>\$ 459,255</u>

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, 2008, Carbon County's governmental funds reported combined fund balances of \$5,878,106, a decrease of \$9,111 over the prior year. Except for prepaid items, the entire amount is unreserved and available for spending at the Commissioner's discretion.

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, 2008, the general fund fund balance was \$1,774,693, an increase over the prior year of \$24,058. This is a very small increase, and again most of it is due to not scheduling capital improvement projects as planned. We also started receiving the state's share of the County Attorney's salary, instead of them paying the County Attorney directly.

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 \$984,316, an increase of \$232,791 over the prior year. Total fund balance represents 66.57 percent of the total road fund expenditures. The increase in fund balance was due to not expending all the gravel and equipment budgets and receiving 101% of the estimated revenues. Also some money was saved due to low cost of snow removal.

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 \$442,497, a decrease of \$13,278. Most of the bridge projects were completed.

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 \$665,015 at year end, with an increase in fund balance of \$79,472. The increase was mostly attributable to not spending the entire capital outlay budget.

General Fund Budgetary Highlights.

Actual expenditures from the general fund were \$765,683 less than budgeted and revenues received were \$63,740 more than anticipated. We did not have the need to spend all of our anticipated expenditures on county building maintenance and repairs, capital improvements on county buildings, office and computer equipment, and additional legal fees.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's investment in capital assets (net of accumulated depreciation) as of June 30, 2008 was \$5,673,796. This investment in capital assets includes land, buildings/improvements, machinery and equipment and infrastructure. During fiscal year 07-08, significant capital additions included public works and public safety machinery and equipment, transportation equipment, communication equipment (new 9-1-1 equipment and generator), and infrastructure projects including overlay and paving of both airport runways.

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, 2009 was \$414,919. This is the only long-term outstanding liability Carbon County has.

THE GOVERNMENT'S FUTURE

Carbon County's financial status remains good, despite an economy slow down. All of our budgeted fund reserves are at the maximum level as allowed by state law. Our County-wide taxable valuation for fiscal year 2009 increased by 3.01% and our rural taxable valuation for road purposes increased by 3.02%. Investment rates remain low. Our PILT payment from the federal government again decreased, but our Federal Mineral Royalties payment increased. These funds continue to offset inflationary trends in salaries, health insurance, road and bridge maintenance, fuel prices, utility rates and other operating costs. As Carbon County grows, so does the demand for increased services.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

In preparation for budget year 2008-2009, we increased our budgets as funds allowed in order to try to cover the increasing costs of running a county government. Utility rates are increasing dramatically and fuel prices are starting to rise again. We are always concerned about road and bridge maintenance and repair, as well as improving and repairing our county buildings. The County continues to be alert to the public wants, needs, and benefits compared to the costs of the services we provide. We also need to be able to differentiate between the wants, needs, and benefits, and proceed as funds and time allow.

Land values continue to remain high, the housing market is stable. Houses may stay on the market longer, but the price is still right up there. The new construction of homes has slowed down a little. Our County is very diverse as far as land values are concerned. The areas south and west of Red Lodge are very desirable and have attracted many second home buyers. Much agricultural land has been purchased by wealthy absentee land owners. The County continues to notice the small urban sprawl around the Red Lodge area. The Affordable Housing Committee continues to work diligently to try to meet this need.

Our Commissioners have continued to increase fees to meet expenses such as subdivision review fees, weed control fees, and rural addressing fees. We created a Resort District around Red Lodge Mountain. We are estimating around \$70,000 in revenue this first year. This is to help with the construction of rebuilding the current road to the ski area.

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

Or e-mail limann@co.carbon.mt.us

CARBON COUNTY
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	
Cash and equivalents	\$ 4,056,557
Investments	1,597,324
Taxes and assessments receivables	594,520
Inventories	206,601
Prepaid items	37,999
Capital assets:	
Land	97,057
Depreciable capital assets, net	5,576,739
Total assets	<u>12,166,797</u>
LIABILITIES	
Accounts payable-vendors	20,375
Long-term liabilities:	
Compensated absences:	
Due within one year	68,677
Due in more than one year	346,242
Total liabilities	<u>435,294</u>
NET ASSETS	
Invested in capital assets	5,673,796
Unrestricted	6,057,707
Total net assets	<u>\$ 11,731,503</u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 1,936,271	\$ 269,786	\$ 23,227	\$ -	\$ (1,643,258)
Public safety	1,615,216	162,332	114,527	8,200	(1,330,157)
Public works	2,720,051	91,427	345,706	45,000	(2,237,918)
Public health	124,053	3,447	81,479	-	(39,127)
Social and economic services	95,092	481	2,500	-	(92,111)
Culture and recreation	204,958	-	23,628	-	(181,330)
Housing and community development	20,000	-	-	-	(20,000)
Other current charges	3,000	-	-	-	(3,000)
Total	\$ 6,718,641	\$ 527,473	\$ 591,067	\$ 53,200	(5,546,901)
General revenues:					
Property taxes					3,617,967
Intergovernmental					1,933,199
Investment earnings					277,592
Miscellaneous					87,021
Gain on disposal of capital assets					90,377
Total general revenues					6,006,156
Change in net assets					459,255
Net assets - beginning					11,272,248
Net assets - ending					\$ 11,731,503

See notes to basic financial statements.

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

ASSETS	General	Road	Bridge	Public Safety	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,260,355	\$ 579,728	\$ 297,726	\$ 484,042	\$ 1,434,706	\$ 4,056,557
Investments	496,282	228,275	117,233	190,598	564,936	1,597,324
Taxes and assessments receivables	131,234	152,910	77,198	155,717	77,461	594,520
Inventories	-	179,063	27,538	-	-	206,601
Prepaid items	21,056	-	-	-	16,943	37,999
Total assets	\$ 1,908,927	\$ 1,139,976	\$ 519,695	\$ 830,357	\$ 2,094,046	\$ 6,493,001

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable-vendors	\$ 3,000	\$ 2,750	\$ -	\$ 9,625	\$ 5,000	\$ 20,375
Deferred revenue	131,234	152,910	77,198	155,717	77,461	594,520
Total liabilities	134,234	155,660	77,198	165,342	82,461	614,895
Fund balances:						
Reserved for:						
Prepaid items	21,056	-	-	-	16,943	37,999
Unreserved	1,753,637	984,316	442,497	665,015	-	3,845,465
Unreserved, reported in non-major:						
Special revenue funds	-	-	-	-	1,961,041	1,961,041
Capital projects funds	-	-	-	-	33,601	33,601
Total fund balances	1,774,693	984,316	442,497	665,015	2,011,585	5,878,106
Total liabilities and fund balances	\$ 1,908,927	\$ 1,139,976	\$ 519,695	\$ 830,357	\$ 2,094,046	\$ 6,493,001

See notes to basic financial statements.

CARBON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance, governmental funds	\$ 5,878,106
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	5,673,796
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	594,520
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(414,919)</u>
Net assets of governmental activities	<u><u>\$ 11,731,503</u></u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	General	Road	Bridge	Public Safety	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,126,381	\$ 751,393	\$ 397,486	\$ 807,300	\$ 409,923	\$ 3,492,483
Fines and forfeitures	98,632	-	-	-	8,406	107,038
Licenses and permits	17,770	2,070	-	2,880	-	22,720
Intergovernmental	225,788	286,621	68,644	87,975	1,900,238	2,569,266
Charges for services	217,039	400	9,942	51,583	108,872	387,836
Investment earnings	222,029	18,085	-	-	37,478	277,592
Miscellaneous	38,001	16,644	46	23,412	17,118	95,221
Total revenues	1,945,640	1,075,213	476,118	973,150	2,482,035	6,952,156
EXPENDITURES						
Current:						
General government	1,700,995	-	-	-	188,067	1,889,062
Public safety	95,367	-	-	1,207,475	202,817	1,505,659
Public works	47,539	1,170,382	730,259	-	399,667	2,347,847
Public health	50,565	-	-	-	73,488	124,053
Social and economic services	32,089	-	-	-	63,003	95,092
Culture and recreation	2,888	-	-	-	196,201	199,089
Housing and community development	-	-	-	-	20,000	20,000
Other current charges	3,000	-	-	-	-	3,000
Capital outlay	77,639	299,321	45,567	57,663	320,426	800,616
Total expenditures	2,010,082	1,469,703	775,826	1,265,138	1,463,669	6,984,418
Excess (deficiency) of revenues over expenditures	(64,442)	(394,490)	(299,708)	(291,988)	1,018,366	(32,262)
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	-	23,151	-	-	-	23,151
Transfers in	88,500	613,130	286,430	371,460	156,462	1,515,982
Transfers out	-	(9,000)	-	-	(1,506,982)	(1,515,982)
Total other financing sources (uses)	88,500	627,281	286,430	371,460	(1,350,520)	23,151
Net change in fund balances	24,058	232,791	(13,278)	79,472	(332,154)	(9,111)
Fund balances - beginning	1,750,635	751,525	455,775	585,543	2,343,739	5,887,217
Fund balances - ending	\$ 1,774,693	\$ 984,316	\$ 442,497	\$ 665,015	\$ 2,011,585	\$ 5,878,106

See notes to basic financial statements.

CARBON COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (9,111)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	273,084
This is the amount by which capital outlay (\$800,616) exceeded depreciation (\$527,532) in the current period.	
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net assets.	67,226
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	135,363
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	(7,307)
Change in net assets of governmental activities	\$ 459,255

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2008

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 11,815,307	\$ 2,162,415
Investments	4,771,903	-
Valuation of investments to fair value	30,498	-
Taxes and assessments receivable	-	1,599,236
Total assets	16,617,708	\$ 3,761,651
LIABILITIES		
Accounts payable	-	\$ 2,162,415
Due to special districts	-	707,454
Due to state	-	345,202
Due to schools	-	329,274
Due to cities/towns	-	217,306
Total liabilities	-	\$ 3,761,651
NET ASSETS		
Held in trust for external investment pool participants	\$ 16,617,708	

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Year Ended June 30, 2008

ADDITIONS	
Contributions	External Investment Trust Fund <u>\$ 23,136,203</u>
Investment earnings:	
Decrease in fair value of investments	(27,430)
Interest	694,545
Total net investment earnings	<u>667,115</u>
Total additions	<u>23,803,318</u>
DEDUCTIONS	
Distributions to participants	<u>24,736,167</u>
Total deductions	<u>24,736,167</u>
Change in net assets	(932,849)
Net assets - beginning	<u>17,550,557</u>
Net assets - ending	<u><u>\$ 16,617,708</u></u>

See notes to basic financial statements.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 mislead or be incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the government. Based on the aforementioned criteria, the government has no component units.

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The bridge fund accounts for resources accumulated and payments made for the maintenance, repair and construction of county-owned bridges.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services.

Additionally, the government reports the following fund types:

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

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

Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 68 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 fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

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

Receivables

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

Inventories and Prepaid Items

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.

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

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

<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.

Warrants Payable

The government pays expenditures by means of warrants. These warrants are orders to the County Treasurer to pay a specified sum to the person named or to the bearer. Warrants not redeemed by the County Treasurer as of June 30, 2008, are reported on the statement of fiduciary net assets as accounts payable.

Compensated Absences

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

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

Long-term Obligations

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

Fund Equity

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

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

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

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

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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	\$ 5,653,881
Fiduciary funds	<u>18,749,625</u>
	<u>\$ 24,403,506</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2008, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 2,000	\$ -	\$ 2,000
Cash in banks:			
Demand deposits	1,398,145	-	1,398,145
Time deposits	-	3,000,000	3,000,000
Savings deposits	88,489	-	88,489
Brokers:			
U.S. Government securities	-	3,249,750	3,249,750
Money markets	28	-	28
Mutual funds	-	119,477	119,477
Repurchase agreement	586,983	-	586,983
Short-term Investment Program (STIP)	<u>15,958,634</u>	-	<u>15,958,634</u>
	<u>\$ 18,034,279</u>	<u>\$ 6,369,227</u>	<u>\$ 24,403,506</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, 2008, \$4,191,192 of the government's bank balance of \$4,493,581 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>\$4,191,192</u>
--	--------------------

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, 2008, exceeded the amount required by state statute.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The investment pool portfolio as of June 30, 2008 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	2.75-3.25	Various	\$ 3,250,000	\$ 3,249,750	\$ 3,234,531	0.51
Certificates of deposit	3.10-4.50	Various	3,000,000	3,000,000	3,000,000	0.47
Mutual funds	N/A	N/A	N/A	119,477	149,975	0.02
				<u>\$ 6,369,227</u>	<u>\$ 6,384,506</u>	

(1) A fair value adjustment for the mutual funds is reflected in the financial statements.

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

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

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent 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	\$ -	\$ 2,749,750	\$ 3,249,750	\$ 3,234,531
Repurchase agreement	-	-	586,983	586,983	586,983
Money markets with brokers	28	-	-	28	28
	<u>\$ 500,028</u>	<u>\$ -</u>	<u>\$ 3,336,733</u>	<u>3,836,761</u>	<u>3,821,542</u>
Uncategorized:					
Mutual funds				119,477	149,975
STIP				<u>15,958,634</u>	<u>15,958,634</u>
				<u>\$ 19,914,872</u>	<u>\$ 19,930,151</u>

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2008:

	Internal	External	Total
Net assets - beginning of year	\$ 7,402,619	\$ 17,550,557	\$ 24,953,176
Contributions from participants	8,381,430	23,136,203	31,517,633
Investment earnings	277,592	694,545	972,137
Change in fair value	-	(27,430)	(27,430)
Distributions to participants	<u>(8,245,345)</u>	<u>(24,736,167)</u>	<u>(32,981,512)</u>
Net assets - end of year	<u>\$ 7,816,296</u>	<u>\$ 16,617,708</u>	<u>\$ 24,434,004</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated				
Land	\$ 97,057	-	-	\$ 97,057
Construction-in-progress	75,000	-	(75,000)	-
Total capital assets, not being depreciated	<u>172,057</u>	<u>-</u>	<u>(75,000)</u>	<u>97,057</u>
Capital assets, being depreciated				
Buildings/improvements	1,882,350	202,692	-	2,085,042
Machinery and equipment	4,472,060	669,507	(311,994)	4,829,573
Infrastructure	1,611,597	120,567	-	1,732,164
Total capital assets, being depreciated	<u>7,966,007</u>	<u>992,766</u>	<u>(311,994)</u>	<u>8,646,779</u>
Less accumulated depreciation for:				
Buildings/improvements	(509,154)	(55,943)	-	(565,097)
Machinery and equipment	(2,192,988)	(414,625)	262,070	(2,345,543)
Infrastructure	(102,436)	(56,964)	-	(159,400)
Total accumulated depreciation	<u>(2,804,578)</u>	<u>(527,532)</u>	<u>262,070</u>	<u>(3,070,040)</u>
Total capital assets, being depreciated, net	<u>5,161,429</u>	<u>465,234</u>	<u>(49,924)</u>	<u>5,576,739</u>
Capital assets, net	<u>\$ 5,333,486</u>	<u>\$ 465,234</u>	<u>\$ (124,924)</u>	<u>\$ 5,673,796</u>

Depreciation expense was charged as follows:

General government	\$ 48,211
Public safety	113,300
Public works	360,397
Culture and recreation	<u>5,624</u>
Total depreciation	<u>\$ 527,532</u>

Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
General	\$ 88,500	-	\$ 88,500
Road	613,130	(9,000)	604,130
Bridge	286,430	-	286,430
Public Safety	371,460	-	371,460
Nonmajor governmental funds	<u>156,462</u>	<u>(1,506,982)</u>	<u>(1,350,520)</u>
	<u>\$ 1,515,982</u>	<u>\$ (1,515,982)</u>	<u>\$ -</u>

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Long-Term Debt

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Due Within One Year
Compensated absences	\$ 407,612	\$ 7,307	\$ -	\$ 414,919	\$ 68,677

Compensated absences are generally liquidated in the fund in which the employee's 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. During 2003, the Authority issued bonds to fund an excess claims payment account. Funding the excess claims payment account enabled the Authority to offer participants more desirable coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Jointly Governed Organization

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

Subsequent Events

Subsequent to year-end, the voters approved the Red Lodge Mountain Resort Tax Area, whereby effective January 1, 2009, a tax rate of three percent shall be imposed on the sale of all food, beverages and other retail sales within the resort area. After three years, all lift tickets sold shall also be taxed at the rate of two percent. The tax is due each April 30th.

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.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

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.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
SRS	9.825%	9.245%	19.070%
PERS	6.935%	6.900%	13.835%

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

The amounts contributed to the plans during the years ended June 30, 2008, 2007 and 2006 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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
SRS	\$ 73,235	\$ 71,085	\$ 62,931
PERS	<u>281,043</u>	<u>251,684</u>	<u>229,414</u>
	<u>\$354,278</u>	<u>\$322,769</u>	<u>\$292,345</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. GASB No. 45 become effective based on the same three phases of governments used in GASBS No. 34. For employers, GASBS No. 45 is effective for Phase 1 governments (total annual revenues of \$100 million or more for the first year ending after June 15, 1999) with years beginning after December 15, 2006, Phase 2 governments (revenues of \$10 million to \$100 million) with years beginning after December 15, 2007, and Phase 3 governments (revenues less than \$10 million) with years beginning after December 15, 2008.

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, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,113,780	\$1,113,780	\$1,126,381
Fines and forfeitures	95,000	95,000	98,632
Licenses and permits	16,350	16,350	17,770
Intergovernmental	217,957	217,957	225,788
Charges for services	213,806	213,806	217,039
Investment earnings	200,000	200,000	222,029
Miscellaneous	25,000	25,000	38,001
Total revenues	1,881,893	1,881,893	1,945,640
EXPENDITURES			
Current:			
General government	2,008,655	2,008,655	1,700,995
Public safety	82,390	82,390	95,367
Public works	10,000	10,000	47,539
Public health	49,530	49,530	50,565
Social and economic services	40,183	40,183	32,089
Culture and recreation	-	-	2,888
Other current charges	120,000	120,000	3,000
Capital outlay	465,000	465,000	77,639
Total expenditures	2,775,758	2,775,758	2,010,082
Excess (deficiency) of revenues over expenditures	(893,865)	(893,865)	(64,442)
OTHER FINANCING SOURCES			
Transfers in	88,500	88,500	88,500
Total other financing sources	88,500	88,500	88,500
Net change in fund balance	\$ (805,365)	\$ (805,365)	24,058
Fund balance - beginning			1,750,635
Fund balance - ending			\$ 1,774,693

See notes to required supplementary information.

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

Road Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 788,596	\$ 788,596	\$ 751,393
Licenses and permits	-	-	2,070
Intergovernmental	268,360	268,360	286,621
Charges for services	500	500	400
Investment earnings	19,000	19,000	18,085
Miscellaneous	1,500	1,500	16,644
Total revenues	1,077,956	1,077,956	1,075,213
EXPENDITURES			
Current:			
Public works	1,443,980	1,443,980	1,170,382
Capital outlay	355,000	355,000	299,321
Total expenditures	1,798,980	1,798,980	1,469,703
Excess (deficiency) of revenues over expenditures	(721,024)	(721,024)	(394,490)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	23,151
Transfers in	613,130	613,130	613,130
Transfers out	-	-	(9,000)
Total other financing sources (uses)	613,130	613,130	627,281
Net change in fund balance	\$ (107,894)	\$ (107,894)	232,791
Fund balance - beginning			751,525
Fund balance - ending			\$ 984,316

See notes to required supplementary information.

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

Bridge Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 415,919	\$ 415,919	\$ 397,486
Intergovernmental	43,263	61,998	68,644
Charges for services	2,000	2,000	9,942
Miscellaneous	-	-	46
Total revenues	461,182	479,917	476,118
EXPENDITURES			
Current:			
Public works	814,080	832,815	730,259
Capital outlay	70,000	70,000	45,567
Total expenditures	884,080	902,815	775,826
Excess (deficiency) of revenues over expenditures	(422,898)	(422,898)	(299,708)
OTHER FINANCING SOURCES			
Transfers in	286,431	286,431	286,430
Total other financing sources	286,431	286,431	286,430
Net change in fund balance	\$ (136,467)	\$ (136,467)	(13,278)
Fund balance - beginning			455,775
Fund balance - ending			\$ 442,497

See notes to required supplementary information.

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 846,068	\$ 846,068	\$ 807,300
Licenses and permits	2,000	2,000	2,880
Intergovernmental	74,517	74,517	87,975
Charges for services	39,000	39,000	51,583
Miscellaneous	2,000	12,000	23,412
Total revenues	<u>963,585</u>	<u>973,585</u>	<u>973,150</u>
EXPENDITURES			
Current:			
Public safety	1,347,320	1,357,320	1,207,475
Capital outlay	<u>93,500</u>	<u>93,500</u>	<u>57,663</u>
Total expenditures	<u>1,440,820</u>	<u>1,450,820</u>	<u>1,265,138</u>
Excess (deficiency) of revenues over expenditures	<u>(477,235)</u>	<u>(477,235)</u>	<u>(291,988)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>371,460</u>	<u>371,460</u>	<u>371,460</u>
Total other financing sources	<u>371,460</u>	<u>371,460</u>	<u>371,460</u>
Net change in fund balance	<u>\$ (105,775)</u>	<u>\$ (105,775)</u>	<u>79,472</u>
Fund balance - beginning			<u>585,543</u>
Fund balance - ending			<u><u>\$ 665,015</u></u>

See notes to required supplementary information.

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2008

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 second Monday in August or within 45 days of receiving certified taxable values from the Department of Revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

OLNESS & ASSOCIATES, P. C.

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CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Red Lodge, Montana (the government) as of and for the year ended June 30, 2008, which collectively comprise the government's basic financial statements and have issued our report thereon dated November 26, 2008. The report on government-wide activities and road and bridge funds was qualified because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the government's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the government's financial statements that is more than inconsequential will not be prevented or detected by the government's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (Findings 08-1 through 08-6)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the government's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 08-6.

Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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

This report is intended solely for the information and use of the management, others within the entity and the Montana Department of Administration, and is not intended to be and should not be used by anyone other than these specified parties.

Olsson & Associates, PC

November 26, 2008

CARBON COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

08-1. Financial Reporting

Internal control is a process - affected by those charged with governance, management, and other personnel - designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term financial reporting includes the preparation of financial statements, including footnote disclosures that are fairly presented in conformity with generally accepted accounting principles. Presently, 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 in relation to preparation of the financial statements or to prevent, detect and correct a material financial statement misstatement.

08-2. Segregation of Duties

Smaller entities often have fewer employees, which may limit the extent to which segregation of duties is practicable. However, for key areas, even in a very small entity, it can be practicable to implement some degree of segregation of duties or other form of unsophisticated, but effective controls. Examples of segregation of duties include reporting, reviewing and approving reconciliations and approval and control of documents.

08-3. Segregate Mail Cash Receipts Duties

Mail cash receipts should be opened and controlled by a person independent of the treasurer's office. The person independent of the treasurer's office should open the mail, endorse the checks, and prepare the deposit slip and list of receipts. The daily list of receipts would be forwarded to the treasurer's office to be received in. Mail cash receipts should be received in under a separate operator number.

08-4. Sheriff Garnishment Account

During our review of the sheriff's office, we noted that the garnishment account is not reconciled at the end of each month and a list of garnishments held is not maintained to support the reconciled cash balance. Further, garnishments and executions are not formally received in on pre-numbered receipts. We recommend the sheriff department develop an accounting system that will allow for the proper accounting and monitoring of the sheriff garnishment account.

08-5. Protested Taxes

During our protested taxes testwork, we noted the protested taxes fund (No. 7130) did not agree to the general ledger protested taxes receivable balances. We recommend the Treasurer's office develop procedures to reconcile the protested taxes fund, protested taxes subsidiary ledger and the protested taxes receivable accounts in the general ledger on a monthly basis. The reconciliations should be retained for future reference.

08-6. Bidding

During fiscal year 2008, the county purchased gravel and asphalt for the Bridger road shop and a Kenworth truck for the Joliet road shop. Both of these purchases were in excess of \$50,000. These purchases were not formally advertised for bid. Section 7-5-2301, MCA, states that advertised bids are required if the county enters into any contract for the purchase of any vehicle, road machinery or other machinery, apparatus, appliances, equipment, materials or supplies or for construction, repair, or maintenance in excess of \$50,000. We recommend contemplated purchases in excess of \$50,000 be advertised for bid.

CARBON COUNTY
PRIOR YEAR AUDIT FINDINGS

<u>Prior Year Audit Findings</u>	<u>Status</u>
07-1. Financial Reporting	Continued disclosure
07-2. Segregation of Duties	Continued disclosure
07-3. Computer Controls	Implemented
07-4. Unrecorded Interest Earnings	Implemented
07-5. Segregate Mail Cash Receipts Duties	Not implemented