

**CARBON COUNTY
RED LODGE, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

(406) 252-6230

FAX (406) 245-6922

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CARBON COUNTY

ORGANIZATION

June 30, 2010

BOARD OF COUNTY COMMISSIONERS

David Davidson	Board Chairman
Douglas Tucker	Commissioner
John Prinkki	Commissioner
<u>ELECTED OFFICIALS</u>	
Linda Ladvala	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
Johnny Seiffert	Justice of the Peace

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2010, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the government's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities and the road and bridge funds, as described in the third paragraph, and except for the effects of not recording the other post employment benefit (OPEB) liability and related expense as described in the preceding paragraph in the governmental activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the road and bridge funds of the government, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund (excluding the road and bridge funds) and the aggregate remaining fund information of the government as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2011, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

Olsson & Associates, PC

April 12, 2011

**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, 2010. 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 \$844,478, or nearly 7 percent.
- During the year, our government had expenses that were \$1,604,332 more than the \$6,235,523 generated in tax and other revenues for governmental programs.
- Total cost of all of programs increased \$540,488.
- The General fund reported an increase this year of \$36,874 in its fund balance.
- Total governmental revenues were \$8,049,997, a decrease of 2% over the prior year, while governmental expenditures were \$7,839,855, an increase of 7% 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 9 and 10) report information about Carbon County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Fund Financial Statements

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

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

Carbon County maintains individual governmental funds, and adopts an annual appropriated budget for them. The general, road, bridge, public safety and PILT 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 17 of this report.

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$13,507,245 as of June 30, 2010.

Net assets increased \$844,478 or 7%, mainly due to insurance recoveries for the Red Lodge road shop fire and capital grants for bridge improvements.

Of the County's total net assets (\$13,507,245), our investment in capital assets accounts for \$6,397,498 or 47%. 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 \$7,109,747 or 53% 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

Schedule of Net Assets

	2010	2009	Change
Current and other assets			
Capital assets	\$ 7,696,219	\$ 7,454,332	\$ 241,887
	<u>6,397,498</u>	<u>5,653,447</u>	<u>744,051</u>
Total assets	<u>14,093,717</u>	<u>13,107,779</u>	<u>985,938</u>
Other liabilities	139,159	27,185	111,974
Long-term liabilities outstanding	<u>447,313</u>	<u>417,827</u>	<u>29,486</u>
Total liabilities	<u>586,472</u>	<u>445,012</u>	<u>141,460</u>
Net assets:			
Invested in capital assets	6,397,498	5,653,447	744,051
Unrestricted	<u>7,109,747</u>	<u>7,009,320</u>	<u>100,427</u>
	<u>\$ 13,507,245</u>	<u>\$ 12,662,767</u>	<u>\$ 844,478</u>

Schedule of Changes in Net Assets

	2010	2009	Change
Revenues:			
Program revenues:			
Charges for services	\$ 489,239	\$ 514,339	\$ (25,100)
Operating grants and contributions	812,595	825,257	(12,662)
Capital grants and contributions	512,640	43,781	468,859
Program revenues:			
General revenues:			
Taxes	3,857,316	3,664,608	192,708
Licenses and permits	1,500	-	1,500
Intergovernmental	2,172,456	2,888,282	(715,826)
Interest	112,496	164,555	(52,059)
Miscellaneous	66,986	82,326	(15,340)
Gain on disposal of capital assets	<u>24,769</u>	<u>47,483</u>	<u>(22,714)</u>
Total revenues	<u>8,049,997</u>	<u>8,230,631</u>	<u>(180,634)</u>
Expenses:			
General government	2,154,095	2,094,240	59,855
Public safety	1,684,431	1,577,945	106,486
Public works	3,206,746	2,704,202	502,544
Public health	212,066	127,103	84,963
Social and economic services	115,289	104,799	10,490
Culture and recreation	271,345	228,472	42,873
Housing and community development	82,603	457,500	(374,897)
Other current charges	<u>113,280</u>	<u>5,106</u>	<u>108,174</u>
Total expenses	<u>7,839,855</u>	<u>7,299,367</u>	<u>540,488</u>
Change in net assets before extraordinary item	210,142	931,264	(721,122)
Extraordinary item: insurance recoveries from fire	<u>634,336</u>	<u>-</u>	<u>634,336</u>
Change in net assets	844,478	931,264	(86,786)
Net assets, beginning	<u>12,662,767</u>	<u>11,731,503</u>	<u>931,264</u>
Net assets, ending	<u>\$ 13,507,245</u>	<u>\$ 12,662,767</u>	<u>\$ 844,478</u>

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

FUND FINANCIAL STATEMENT ANALYSIS

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

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

As of June 30, 2010, Carbon County's governmental funds reported combined fund balances of \$7,034,017, an increase of \$138,534 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, 2010, the general fund fund balance was \$1,542,761, an increase over the prior year of \$36,874 or 2%.

The road fund accounts for resources accumulated and payments made for the maintenance, repair, and construction of county-owned roads. At the end of the fiscal year, the fund balance of the road fund was \$1,405,221, an increase of \$396,640 over the prior year. The increase occurred because of insurance recoveries from the Red Lodge shop fire. Construction of the new shop was in progress at the end of the 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 \$959,862, an increase of \$235,850. The increase occurred because additional non-tax revenue was added to the fund and culvert and bridge work that was planned was not completed by year-end.

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 \$771,450, an increase of \$16,491 or 2%.

The PILT fund accounts for PILT revenues and expenditures. Year end fund balance was \$726,217, a decrease of \$72,267. The decrease occurred because a portion of various 911 projects were funded through PILT.

General Fund Budgetary Highlights.

General fund expenditures were \$653,452 less than the amount budgeted. Revenues received were \$93,654 less than anticipated. Various capital outlay and contracts for services did not transpire by year-end. The revenue shortfall is attributable to the incorrect distribution of the local option motor vehicle tax.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's investment in capital assets (net of accumulated depreciation) as of June 30, 2010 was \$6,397,498. This investment in capital assets includes land, buildings/improvements, machinery and equipment and infrastructure. During fiscal year 2010 significant capital additions included construction on the new Red Lodge road shop, Tuttle bridge 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, 2010 was \$447,313. This is the only long-term outstanding liability Carbon County has.

THE GOVERNMENT'S FUTURE

Carbon County's financial status continues to remain solid. All of our budgeted fund reserves are still at the maximum level of 33% as allowed by state law. Our county-wide taxable valuation for fiscal year 2011 increased by 6.83% and our rural taxable valuation for road purposes increased by 7.58%. Investment rates are pretty much at the bottom. The revenues from our PILT, federal mineral royalties and oil & gas production programs decreased in total by \$665,120 from the previous year. 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 strive to continue to provide good maintenance on existing assets.

In preparation for budget year 2010-2011, we kept our mills at the maximum level allowed by state statute, in order to cover the increasing costs of running a county government. The state legislature meets this year and two bills have been introduced that would reduce the state entitlement share payments to local governments. The state legislature continues to negotiate to pass several bills to

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

fit all of the Governor's budget pieces together. The Governor's budget proposal is like a huge jigsaw puzzle that in the end cannot have any holes in the middle, or any pieces left-over. But we, as counties, have to protect our financial sources and abilities to serve our county citizens.

As the state and cities continue to cut back on their funding, everyone wants more money from the county to keep their 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 wants and needs and compare the costs of services we provide with the benefits derived from those services and proceed as funds and time allow.

Our Red Lodge road shop burned to the ground on December 15, 2009. The state fire marshal did not find any malfunction or cause for the fire. It was pretty inconvenient for our road crew to work out of a temporary 8X20 building with not many tools, etc. But our insurance company has been great to work with and we now have a brand new shop equipped with new tools, equipment and a ground source heat pump for heating, for which we acquired an Energy Efficiency Conservation Black Grant.

We have a court case in Carbon County involving starving horses, in which 27 counts of felony animal cruelty charges have been filed. The County could have the potential responsibility of taking possession and caring for the horses until the case is settled.

Land values have dropped a little, but are still holding pretty well. Realtors have noticed some drop in business and properties are staying on the market for a longer period of time rather than dropping the selling price. New construction is definitely down. We are seeing more final foreclosures, bankruptcies and repeat trustee sales.

On the brighter side, we have seen an increased interest in oil leasing. Also, Coal Mountain Mining Company, a coal mining development company, is very positive about their endeavors and explorations to get coal mining going again in the Carbon County area. They have met several times with the County Commissioners and are excited about their progress. They have made monetary and surface agreements with the majority of affected land owners and the title work is done. They estimate 200 million tons of coal are recoverable immediately and another 600-700 million tons available to be mined later. They want to have a mine plan in place in approximately two years.

We also have four active Community CTEP Projects going on – Bearcreek Bank Restoration, Roberts Community Project, Bridger Library Sidewalk Replacement, and Red Lodge Lions Park Landscaping. We used stimulus money for improving a portion of the ski run road, TSEP funding for replacing some county bridges, and got a Coal Board Grant for funding a portion of remodeling the Red Lodge Boys & Girls Club.

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, 2010

ASSETS	
Cash and equivalents	\$ 3,999,371
Investments	2,484,603
Receivables:	
Taxes and assessments	523,043
Governments	52,417
Insurance	429,689
Other	10,000
Inventories	161,572
Prepaid items	35,524
Capital assets:	
Land and construction in progress	253,650
Depreciable capital assets, net	<u>6,143,848</u>
Total assets	<u>14,093,717</u>
LIABILITIES	
Accounts payable-vendors	139,159
Long-term liabilities:	
Compensated absences:	
Due within one year	44,731
Due in more than one year	<u>402,582</u>
Total liabilities	<u>586,472</u>
NET ASSETS	
Invested in capital assets	6,397,498
Unrestricted	<u>7,109,747</u>
Total net assets	<u><u>\$ 13,507,245</u></u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,154,095	\$ 229,749	\$ 21,100	\$ -	\$ (1,903,246)
Public safety	1,684,431	143,949	177,436	-	(1,363,046)
Public works	3,206,746	105,844	351,001	512,640	(2,237,261)
Public health	212,066	9,016	164,393	-	(38,657)
Social and economic services	115,289	681	-	-	(114,608)
Culture and recreation	271,345	-	24,530	-	(246,815)
Housing and community development	82,603	-	74,135	-	(8,468)
Other current charges	113,280	-	-	-	(113,280)
Total	7,839,855	489,239	812,595	512,640	(6,025,381)
General revenues:					
Property taxes					3,857,316
Licenses and permits					1,500
Intergovernmental					2,172,456
Investment earnings					112,496
Miscellaneous					66,986
Gain on disposal of capital assets					24,769
Total general revenues					6,235,523
Change in net assets before extraordinary item					210,142
Extraordinary item: insurance recoveries from fire					634,336
Change in net assets					844,478
Net assets - beginning					12,662,767
Net assets - ending					\$ 13,507,245

See notes to basic financial statements.

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

ASSETS	General	Road	Bridge	Public Safety	PILT	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 935,895	\$ 561,349	\$ 558,246	\$ 474,944	\$ 447,937	\$ 1,021,000	\$ 3,999,371
Investments	581,423	348,737	346,810	295,058	278,280	634,295	2,484,603
Receivables:							
Taxes and assessments	116,935	130,994	68,790	138,556	-	67,768	523,043
Governments	4,387	-	14,985	-	-	33,045	52,417
Insurance	-	429,689	-	-	-	-	429,689
Other	-	10,000	-	-	-	-	10,000
Inventories	-	121,751	39,821	-	-	-	161,572
Prepaid items	21,056	-	-	1,448	-	13,020	35,524
Total assets	\$ 1,659,696	\$ 1,602,520	\$ 1,028,652	\$ 910,006	\$ 726,217	\$ 1,769,128	\$ 7,696,219

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable-vendors	\$ -	\$ 66,305	\$ -	\$ -	\$ -	\$ 72,854	\$ 139,159
Deferred revenue	116,935	130,994	68,790	138,556	-	67,768	523,043
Total liabilities	116,935	197,299	68,790	138,556	-	140,622	662,202
Fund balances:							
Reserved for:							
Prepaid items	21,056	-	-	1,448	-	13,020	35,524
Unreserved	1,521,705	1,405,221	959,862	770,002	726,217	-	5,383,007
Unreserved, reported in non-major:							
Special revenue funds	-	-	-	-	-	1,589,124	1,589,124
Capital projects funds	-	-	-	-	-	26,362	26,362
Total fund balances	1,542,761	1,405,221	959,862	771,450	726,217	1,628,506	7,034,017
Total liabilities and fund balances	\$ 1,659,696	\$ 1,602,520	\$ 1,028,652	\$ 910,006	\$ 726,217	\$ 1,769,128	\$ 7,696,219

CARBON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total fund balance, governmental funds	\$ 7,034,017
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.	6,397,498
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	523,043
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(447,313)</u>
Net assets of governmental activities	<u><u>\$ 13,507,245</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, 2010

	General	Road	Bridge	Public Safety	PILT	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes/assessments	\$ 1,106,763	\$ 863,983	\$ 461,668	\$ 935,491	\$ -	\$ 508,429	\$ 3,876,334
Fines and forfeitures	73,417	-	-	-	-	6,125	79,542
Licenses and permits	13,892	1,975	-	4,440	-	-	20,307
Intergovernmental	238,282	466,761	357,839	82,007	780,486	1,411,821	3,337,196
Charges for services	191,886	553	9,180	53,187	-	124,187	378,993
Investment earnings	91,022	6,858	-	-	10,801	3,815	112,496
Miscellaneous	30,611	8,639	118	8,526	-	19,092	66,986
Total revenues	1,745,873	1,348,769	828,805	1,083,651	791,287	2,073,469	7,871,854
EXPENDITURES							
Current:							
General government	1,873,688	-	-	-	589	214,534	2,088,811
Public safety	101,521	-	-	1,217,592	49,043	172,083	1,540,239
Public works	7,190	1,669,080	696,085	-	-	426,004	2,798,359
Public health	48,882	-	-	-	-	163,184	212,066
Social and economic services	37,025	-	-	-	-	78,264	115,289
Culture and recreation	-	-	-	-	-	265,243	265,243
Housing and community development	-	-	-	-	-	82,603	82,603
Other current charges	113,280	-	-	-	-	-	113,280
Capital outlay	50,684	485,433	347,626	53,434	22,089	228,850	1,188,116
Total expenditures	2,232,270	2,154,513	1,043,711	1,271,026	71,721	1,630,765	8,404,006
Excess (deficiency) of revenues over expenditures	(486,397)	(805,744)	(214,906)	(187,375)	719,566	442,704	(532,152)
OTHER FINANCING SOURCES (USES)							
Sale of capital assets	-	30,100	-	-	-	6,250	36,350
Transfers in	523,271	537,948	450,756	203,866	-	274,783	1,990,624
Transfers out	-	-	-	-	(791,833)	(1,198,791)	(1,990,624)
Total other financing sources (uses)	523,271	568,048	450,756	203,866	(791,833)	(917,758)	36,350
Net change in fund balances before extraordinary item	36,874	(237,696)	235,850	16,491	(72,267)	(475,054)	(495,802)
EXTRAORDINARY ITEM							
Insurance recoveries from fire	-	634,336	-	-	-	-	634,336
Net change in fund balances	36,874	396,640	235,850	16,491	(72,267)	(475,054)	138,534
Fund balances - beginning	1,505,887	1,008,581	724,012	754,959	798,484	2,103,560	6,895,483
Fund balances - ending	\$ 1,542,761	\$ 1,405,221	\$ 959,862	\$ 771,450	\$ 726,217	\$ 1,628,506	\$ 7,034,017

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, 2010

Net change in fund balances - total governmental funds	\$ 138,534
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.	593,637
This is the amount by which (\$1,188,116) exceeded depreciation (\$594,479) in the current period.	150,414
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net assets.	(8,621)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(29,486)
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	\$ 844,478
Change in net assets of governmental activities	\$ 844,478

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 5,880,289	\$ 462,737
Investments	3,759,263	-
Taxes and assessments receivable	-	1,423,076
Total assets	9,639,552	\$ 1,885,813
LIABILITIES		
Accounts payable	-	\$ 135,012
Due to special districts	-	93,427
Due to state	-	361,008
Due to schools	-	1,006,924
Due to cities/towns	-	289,442
Total liabilities	-	\$ 1,885,813
NET ASSETS		
Held in trust for external investment pool participants	\$ 9,639,552	

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Year Ended June 30, 2010

	External Investment Trust Fund
ADDITIONS	
Contributions	\$ 9,620,854
Investment earnings:	
Interest	<u>141,536</u>
Total net investment earnings	<u>141,536</u>
Total additions	<u>9,762,390</u>
DEDUCTIONS	
Distributions to participants	<u>11,101,245</u>
Total deductions	<u>11,101,245</u>
Change in net assets	<u>(1,338,855)</u>
Net assets - beginning	<u>10,978,407</u>
Net assets - ending	<u><u>\$ 9,639,552</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.

The PILT fund accounts for PILT revenue and expenditures.

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. 58 percent of the investment pool belongs to these districts.

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

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

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

Receivables

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Inventories 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.

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.

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	\$ 6,483,974
Fiduciary funds	<u>10,102,289</u>
	<u>\$ 16,586,263</u>

Total carrying value of cash, cash equivalents and investments as of June 30, 2010, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 2,507	\$ -	\$ 2,507
Cash in banks:			
Demand deposits	1,423,108	-	1,423,108
Time deposits	-	1,796,479	1,796,479
Savings deposits	7,650,474	-	7,650,474
Brokers:			
U.S. Government securities	-	4,337,500	4,337,500
Money markets	6,029	-	6,029
Mutual funds	-	109,887	109,887
Repurchase agreement	41,266	-	41,266
Short-term Investment Program (STIP)	<u>1,219,013</u>	-	<u>1,219,013</u>
	<u>\$ 10,342,397</u>	<u>\$ 6,243,866</u>	<u>\$ 16,586,263</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, 2010, \$11,175,270 of the government's bank balance of \$11,931,290 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>\$ 11,175,270</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, 2010, exceeded the amount required by state statute.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

The investment pool portfolio as of June 30, 2010 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	1.38-2.00	Various	\$ 4,337,500	\$ 4,337,500	\$ 4,354,588	69.47%
Certificates of deposit	2.00-3.00	Various	1,796,479	1,796,479	1,796,479	28.77%
Mutual funds	N/A	N/A	N/A	109,887	116,587	1.76%
				<u>\$ 6,243,866</u>	<u>\$ 6,267,654</u>	

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

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

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

Investments made by the government are summarized below. The investments that are represented by specific identifiable investment securities are categorized in the following manner: Category 1-Insured or registered, with securities held by the government or its agent in the government's name; Category 2-Uninsured and unregistered, with securities held by the counterparty's trust department or agent 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	\$ -	\$ 3,837,500	\$ 4,337,500	\$ 4,354,588
Repurchase agreement	-	-	41,266	41,266	41,266
Money markets with brokers	6,029	-	-	6,029	6,029
	<u>\$ 506,029</u>	<u>\$ -</u>	<u>\$ 3,878,766</u>	<u>4,384,795</u>	<u>4,401,883</u>
Uncategorized:					
Mutual funds				109,887	116,587
STIP				<u>1,219,013</u>	<u>1,219,013</u>
				<u>\$ 5,713,695</u>	<u>\$ 5,737,483</u>

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2010:

	Internal	External	Total
Net assets - beginning of year	\$ 7,168,685	\$ 10,978,407	\$ 18,147,092
Contributions from participants	5,943,772	9,620,854	15,564,626
Investment earnings	112,496	141,536	254,032
Distributions to participants	<u>(6,278,242)</u>	<u>(11,101,245)</u>	<u>(17,379,487)</u>
Net assets - end of year	<u>\$ 6,946,711</u>	<u>\$ 9,639,552</u>	<u>\$ 16,586,263</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated				
Land	\$ 97,077	\$ -	\$ -	\$ 97,077
Construction-in-progress	-	156,573	-	156,573
Total capital assets, not being depreciated	<u>97,077</u>	<u>156,573</u>	<u>-</u>	<u>253,650</u>
Capital assets, being depreciated				
Buildings/improvements	2,244,827	23,898	(3,160)	2,265,565
Machinery and equipment	4,935,487	887,975	(143,051)	5,680,411
Infrastructure	1,754,986	291,165	-	2,046,151
Total capital assets, being depreciated	<u>8,935,300</u>	<u>1,203,038</u>	<u>(146,211)</u>	<u>9,992,127</u>
Less accumulated depreciation for:				
Buildings/improvements	(626,876)	(65,221)	2,099	(689,998)
Machinery and equipment	(2,534,110)	(467,289)	123,031	(2,878,368)
Infrastructure	(217,944)	(61,969)	-	(279,913)
Total accumulated depreciation	<u>(3,378,930)</u>	<u>(594,479)</u>	<u>125,130</u>	<u>(3,848,279)</u>
Total capital assets, being depreciated, net	<u>5,556,370</u>	<u>608,559</u>	<u>(21,081)</u>	<u>6,143,848</u>
Capital assets, net	<u>\$ 5,653,447</u>	<u>\$ 765,132</u>	<u>\$ (21,081)</u>	<u>\$ 6,397,498</u>

Depreciation expense was charged as follows:

General government	\$ 54,534
Public safety	134,798
Public works	399,194
Culture and recreation	<u>5,953</u>
Total depreciation	<u>\$ 594,479</u>

Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
General	\$ 523,271	\$ -	\$ 523,271
Road	537,948	-	537,948
Bridge	450,756	-	450,756
Public Safety	203,866	-	203,866
PILT	-	(791,833)	(791,833)
Nonmajor governmental funds	<u>274,783</u>	<u>(1,198,791)</u>	<u>(924,008)</u>
	<u>\$ 1,990,624</u>	<u>\$ (1,990,624)</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, 2010, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 417,827	\$ 29,486	\$ -	\$ 447,313	\$ 44,731

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

Conduit Debt

To provide for a portion of the interim financing for the costs of designing, constructing, furnishing and equipping new critical access hospital and facilities, the County issued revenue anticipation notes amounting to \$6 million in February 2010. These notes are limited obligations of the County, payable from the proceeds of the permanent financing to be obtained by the Memorial Hospital Association, Inc. and the amounts on deposit in the pledge funds and accounts held by the trustee under the trust indenture. The notes do not constitute a debt or pledge of the faith and credit of the County or the State, and accordingly have not been reported in the accompanying financial statements. As of June 30, 2010, revenue anticipation notes outstanding were \$6 million. The revenue anticipation note matures March 1, 2011.

NOTE 3. OTHER INFORMATION

Risk Management

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

Jointly Governed Organization

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

Extraordinary Item

In December 2009, the Red Lodge road shop and contents were destroyed by a fire. The book value of the destroyed assets has been removed from the government's capital asset records. Insurance received through June 30, 2010 was \$634,336.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts, of approximately \$377,000, primarily for the completion of the new Red Lodge road shop.

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.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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	7.070%	6.900%	13.970%

The State of Montana contributes .1% and 2.49% per year to the PERS and TRS plans, respectively, 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, 2010, 2009 and 2008 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:

	2010	2009	2008
SRS	\$ 83,722	\$ 81,351	\$ 73,235
PERS	340,358	314,069	281,043
	\$ 424,080	\$ 395,420	\$ 354,278

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The provisions of GASBS No. 54 must be implemented no later than the fiscal year beginning July 1, 2010. Implementation will require restatement of existing fund balances for the governmental funds.

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, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,139,516	\$1,139,516	\$1,106,763
Fines and forfeitures	85,000	85,000	73,417
Licenses and permits	10,700	10,700	13,892
Intergovernmental	253,996	253,996	238,282
Charges for services	199,315	199,315	191,886
Investment earnings	130,000	130,000	91,022
Miscellaneous	21,000	21,000	30,611
Total revenues	1,839,527	1,839,527	1,745,873
EXPENDITURES			
Current:			
General government	2,252,800	2,252,800	1,873,688
Public safety	118,137	118,137	101,521
Public works	10,000	10,000	7,190
Public health	54,760	54,760	48,882
Social and economic services	45,025	45,025	37,025
Other current charges	135,000	135,000	113,280
Capital outlay	270,000	270,000	50,684
Total expenditures	2,885,722	2,885,722	2,232,270
Excess (deficiency) of revenues over (under) expenditures	<u>(1,046,195)</u>	<u>(1,046,195)</u>	<u>(486,397)</u>
OTHER FINANCING SOURCES			
Transfers in	523,271	523,271	523,271
Total other financing sources	523,271	523,271	523,271
Net change in fund balance	\$ (522,924)	\$ (522,924)	36,874
Fund balance - beginning			1,505,887
Fund balance - ending			\$ 1,542,761

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, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 859,957	\$ 859,957	\$ 863,983
Licenses and permits	1,000	1,000	1,975
Intergovernmental	500,795	500,795	466,761
Charges for services	-	-	553
Investment earnings	10,000	10,000	6,858
Miscellaneous	2,000	2,000	8,639
Total revenues	1,373,752	1,373,752	1,348,769
EXPENDITURES			
Current:			
Public works	1,759,605	2,001,832	1,669,080
Capital outlay	326,000	1,056,000	485,433
Total expenditures	2,085,605	3,057,832	2,154,513
Excess (deficiency) of revenues over (under) expenditures	(711,853)	(1,684,080)	(805,744)
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	30,100
Transfers in	537,948	537,948	537,948
Total other financing sources	537,948	537,948	568,048
Net change in fund balance before extraordinary item	(173,905)	(1,146,132)	(237,686)
EXTRAORDINARY ITEM			
Insurance recoveries from fire	-	972,227	634,336
Net change in fund balance	\$ (173,905)	\$ (173,905)	396,640
Fund balance - beginning			1,008,581
Fund balance - ending			\$ 1,405,221

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, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 460,324	\$ 460,324	\$ 461,668
Intergovernmental	528,533	528,533	357,839
Charges for services	2,000	2,000	9,180
Miscellaneous	200	200	118
Total revenues	991,057	991,057	828,805
EXPENDITURES			
Current:			
Public works	851,820	851,820	696,085
Capital outlay	932,748	932,748	347,626
Total expenditures	1,784,568	1,784,568	1,043,711
Excess (deficiency) of revenues over (under) expenditures	(793,511)	(793,511)	(214,906)
OTHER FINANCING SOURCES			
Transfers in	686,259	686,259	450,756
Total other financing sources	686,259	686,259	450,756
Net change in fund balance	\$ (107,252)	\$ (107,252)	235,850
Fund balance - beginning			724,012
Fund balance - ending			\$ 959,862

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, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$ 932,711	\$ 932,711	\$ 935,491
Licenses and permits	5,000	5,000	4,440
Intergovernmental	117,344	117,344	82,007
Charges for services	46,000	46,000	53,187
Miscellaneous	8,000	8,000	8,526
Total revenues	<u>1,109,055</u>	<u>1,109,055</u>	<u>1,083,651</u>
EXPENDITURES			
Current:			
Public safety	1,497,910	1,497,910	1,217,592
Capital outlay	53,000	53,000	53,434
Total expenditures	<u>1,550,910</u>	<u>1,550,910</u>	<u>1,271,026</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(441,855)</u>	<u>(441,855)</u>	<u>(187,375)</u>
OTHER FINANCING SOURCES			
Transfers in	203,866	203,866	203,866
Total other financing sources	<u>203,866</u>	<u>203,866</u>	<u>203,866</u>
Net change in fund balance	<u>\$ (237,989)</u>	<u>\$ (237,989)</u>	<u>16,491</u>
Fund balance - beginning			<u>754,959</u>
Fund balance - ending			<u>\$ 771,450</u>

See notes to required supplementary information.

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

PILT Fund

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Intergovernmental	\$ 700,000	\$ 700,000	\$ 780,486
Investment earnings	10,000	10,000	10,801
Total revenues	710,000	710,000	791,287
EXPENDITURES:			
Current:			
General government	589	589	589
Public safety	58,800	58,800	49,043
Capital outlay	25,000	25,000	22,089
Total expenditures	84,389	84,389	71,721
Excess (deficiency) of revenues over expenditures	625,611	625,611	719,566
OTHER FINANCING USES			
Transfers out	(1,424,095)	(1,424,095)	(791,833)
Total other financing uses	(1,424,095)	(1,424,095)	(791,833)
Net change in fund balance	\$ (798,484)	\$ (798,484)	(72,267)
Fund balance - beginning			798,484
Fund balance - ending			\$ 726,217

See notes to required supplementary information.

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2010

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.

CERTIFIED PUBLIC ACCOUNTANTS

ERNEST J. OLNESS, CPA

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

2810 CENTRAL AVENUE, SUITE B
BILLINGS, MONTANA 59102
(406) 252-6230
FAX (406) 245-6922

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2010, which collectively comprise the government's basic financial statements and have issued our report thereon dated April 12, 2011. The report on governmental activities and the road and bridge funds was qualified because we did not observe year-end inventory counts and the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Also, the report on governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the government's internal control over financial reporting.

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

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 to be material weaknesses. (Findings 2010-1 through 2010-4)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency. (Finding 2010-5)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2010-4 and 2010-5.

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

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

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

Oluss & Associates, PC

April 12, 2011

CARBON COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

2010-1. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements 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.

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

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; 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, this weakness in internal control would be classified as material.

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

2010-2. 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, 2010.

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

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

2010-3. 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.

2010-4. LOCAL OPTION MOTOR VEHICLE TAX

Criteria: Section 61-3-537, MCA, requires the local option motor vehicle tax to be distributed as follows:

- (a) 50% to the county; and
- (b) the remaining 50% to the county and the incorporated cities and towns within the county, apportioned on the basis of population. The distribution to a city or town is determined by multiplying the amount of money available by the ratio of the population of the city or town to the total county population. The distribution to the county is determined by multiplying the amount of money available by the ratio of the population of unincorporated areas within the county to the total county population.

CARBON COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

Condition: The County Treasurer used the incorrect percentages to distribute the local option motor vehicle tax for the last few months of fiscal year 2009 and all of fiscal year 2010.

Cause: Unknown.

Effect: As a result of the incorrect distribution, the General fund was shorted approximately \$203,000 and the incorporated cities and towns located within the County received \$203,000 over and above the amount allowed by state statute.

Recommendation: The County Commissioners should notify the incorporated cities and towns about the local option motor vehicle tax discrepancy and determine what course of action, if any, will be taken to recover the over distribution. Additionally, for fiscal year 2011, the County Treasurer should correct the distribution percentages and the amounts distributed to the incorporated cities and towns.

2010-5. COMPETITIVE BIDDING

Criteria: A contract for the purchase of any vehicle, road machinery or other machinery, apparatus, appliances, equipment, or materials or supplies or for construction, repair, or maintenance in excess of \$50,000 may not be entered into by a County governing body without first publishing a notice calling for bids. (MCA 7-5-2301)

Condition: During 2010, the County purchased asphalt for approximately \$264,000 without publishing a notice calling for bids.

Cause: Unknown.

Effect: Noncompliance with the competitive bidding requirements under Montana Code Annotated.

Recommendation: The County should review its procurement procedures to ensure that all contemplated purchases in excess of \$50,000 are formally bid in accordance with state statutes.

CARBON COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>Prior Year Financial Statement Findings</u>	<u>Status</u>
09-1. Financial Reporting	Continued disclosure
09-2. Segregation of Duties	Continued disclosure
09-3. Bidding	Not implemented