

**CARBON COUNTY
RED LODGE, MONTANA
FINANCIAL STATEMENTS**

For the Year Ended June 30, 2011

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CARBON COUNTY
ORGANIZATION

June 30, 2011

BOARD OF COUNTY COMMISSIONERS

Douglas Tucker	Board Chairman
John Grewell	Commissioner
John Printkki	Commissioner

ELECTED OFFICIALS

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

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

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

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, 2011, 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 OPEB liability and related expense be recorded, which would increase the liabilities and expenses and decrease net assets for the governmental activities. The amount by which this departure would affect the liabilities, net assets and expenses is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the amounts at which inventory was recorded in the governmental activities and the road and bridge funds, as described in the third paragraph, and except for the effects of not recording the OPEB liability and related expense in the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the road and bridge funds of the government, as of June 30, 2011, 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, 2011, 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.

As described in Note 1 to the financial statements, the government adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

O'Leary & Associates, PC

March 8, 2012

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

As financial management of Carbon County, a political subdivision of the state of Montana, we offer readers of the attached Carbon County financial statements this narrative. This discussion and analysis of the financial performance of Carbon County provides an overview of the government's financial activities and financial position for the fiscal year ended June 30, 2011. 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 \$480,478, or 4 percent.
- During the year, our government had expenses that were \$1,335,792 more than the \$7,144,912 generated in tax and other revenues for governmental programs.
- Total cost of all of programs increased \$640,849.
- The General fund reported an increase this year of \$273,856 in its fund balance.
- Total governmental activities revenues were \$8,961,182, an increase of 11% over the prior year, while expenditures increased to \$8,480,704, 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 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 and public safety funds are all considered to be major funds. Other governmental funds are combined into a single aggregate presentation titled other governmental funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget, both original and final, to demonstrate compliance with the budgets. This information is reported as requires supplementary information.

Fiduciary Funds

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

NOTES TO BASIC FINANCIAL STATEMENT

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

THE GOVERNMENT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$14,191,698, as of June 30, 2011.

Net assets of our governmental activities increased by \$480,478, or 4 percent.

Of the County's total net assets (\$14,191,698), our investment in capital assets account for \$7,005,486 or 51.1%. Capital assets reflect the County's investments in land, buildings, improvements, infrastructure and machinery and equipment. Carbon County uses these capital assets to provide services to citizens and the community; consequently these assets are not available for future spending.

Unrestricted net assets account for \$2,602,278 or 18% of the total net assets. Unrestricted net assets are primarily used for cash flow purposes in between property tax collections, which are due in 50 percent installments on November 30 and May 31 of each year, and also to provide against unforeseen costs or events.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

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

Carbon County's Net Assets

	2011	2010	Change
Current and other assets	\$ 7,726,142	\$ 7,696,219	\$ 29,923
Capital assets	7,005,486	6,397,498	607,988
Total assets	14,731,628	14,093,717	637,911
Other liabilities	68,405	139,159	(70,754)
Long-term liabilities outstanding	471,525	447,313	24,212
Total liabilities	539,930	586,472	(46,542)
Net assets:			
Invested in capital assets	7,005,486	6,397,498	607,988
Restricted	4,583,934	4,712,492	(128,558)
Unrestricted	2,602,278	2,397,255	205,023
\$ 14,191,698	\$ 13,507,245	\$ 684,453	

Carbon County's Changes in Net Assets

	2011	2010	Change
Revenues:			
Program revenues:			
Charges for services	\$ 708,727	\$ 489,239	\$ 219,488
Operating grants and contributions	1,037,265	812,595	224,670
Capital grants and contributions	70,278	512,640	(442,362)
Program revenues:			
General revenues:			
Taxes	4,493,290	3,857,316	635,974
Licenses and permits	-	1,500	(1,500)
Intergovernmental	2,408,454	2,172,456	235,998
Interest	61,057	112,496	(51,439)
Miscellaneous	127,918	66,986	60,932
Gain on disposal of capital assets	54,193	24,769	29,424
Total revenues	8,961,182	8,049,997	911,185
Expenses:			
General government	2,134,003	2,154,095	(20,092)
Public safety	2,037,985	1,684,431	353,554
Public works	3,329,979	3,206,746	123,233
Public health	190,148	212,066	(21,918)
Social and economic services	117,401	115,289	2,112
Culture and recreation	487,446	271,345	216,101
Housing and community development	78,147	82,603	(4,456)
Other current charges	105,595	113,280	(7,685)
Total expenses	8,480,704	7,839,855	640,849
Change in net assets before extraordinary item	480,478	210,142	270,336
Extraordinary item: insurance recoveries from fire	-	634,336	(634,336)
Change in net assets	480,478	844,478	(364,000)
Net assets, beginning	13,507,245	12,662,767	844,478
Prior period adjustments	203,975	-	203,975
Net assets, ending	\$ 14,191,698	\$ 13,507,245	\$ 684,453

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, 2011, Carbon County's governmental funds reported combined fund balances of \$7,150,994, a decrease of \$86,998 from the prior year. \$2,019,464 is unassigned, \$947,003 is committed and the remaining \$4,184,527 is restricted or in nonspendable form.

The general fund is the primary operating fund of Carbon County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. As of June 30, 2011, the general fund fund balance was \$2,020,592, an increase over the prior year of \$273,856 or 16%.

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 \$1,614,968, an increase of \$209,747 over the prior year. A portion of the increase is attributable to 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 \$578,352, a decrease of \$381,510. The decrease occurred because fund balance was reappropriated to fund construction of various bridges.

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 \$742,044, a decrease of \$29,406 or 3 percent.

General Fund Budgetary Highlights.

General fund expenditures were \$668,338 less than the amount budgeted. Revenues received were \$144,544 more than anticipated. Various capital outlay and contracts for services did not transpire by year-end. The favorable revenue variance is attributable to the correction to the local vehicle option tax distribution.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's investment in capital assets (net of accumulated depreciation) as of June 30, 2011 was \$7,005,486. This investment in capital assets includes land, buildings/improvements, machinery and equipment and infrastructure. During fiscal year 2011 significant capital additions included construction of the new Red Lodge road shop, the Tuttle bridge and new 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, 2011 was \$471,425. This is the only long-term debt Carbon County has.

THE GOVERNMENT'S FUTURE

Carbon County's financial status continues to remain solid. All of our fund reserves are still at the maximum level of 33% of appropriations as allowed by Montana state law. Our county-wide taxable valuation for fiscal year 2012 increased by 1.55% and our rural taxable valuation for road purposes increased by .94%. Investment rates are still pretty much at the bottom. The revenues from our PILT, Federal Mineral Royalties and Oil & Gas Production programs increased in total by \$195,288 from the previous year. These funds are very valuable and help offset the increase in salaries/benefits, public safety expenses, road and bridge maintenance and other operating costs. There is always a demand for increased services, while we continue to provide maintenance and upkeep on our existing assets.

In preparation for budget year 2011-2012, we again kept our mills at the maximum level allowed by state statute, in order to cover the increasing costs of running a county government. We are also planning on building a new Joliet Road Shop and we are fortunate to have enough funding to budget for that expenditure without having to borrow money.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

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

We always have to be aware of the state government passing on increased demands to county governments. But we, as a county, have to be fiscally responsible to our taxpayers and protect our financial sources and abilities to serve our citizens.

Carbon County experienced a devastating spring flood in May 2011, as did several other counties in Montana. We had a great amount of damage to private homes, water ways, bridges, county roads and public buildings. The Commissioners signed an emergency declaration and we budgeted a two mill levy for an Emergency Disaster fund. FEMA was here for a couple of months helping out and we have received some much needed and appreciated FEMA funds for restoration and rebuilding of many roads and bridges.

We plan to build a new road shop building in Joliet this coming year. The old shop building is antiquated. With the construction of this new shop building, we will now have three new road shop buildings. They plan to make room in the new Joliet Shop building to house our County Extension Office, Food Bank, and a meeting room for the Community to use.

Carbon was one of six counties that sued Governor Schweitzer to undo the governor's veto of TSEP funding for their bridge and water projects. The local governments felt that Schweitzer exceeded his line-item veto authority when he struck down their projects, allowing the money to flow to other projects. The District Judge ruled in the counties favor, saying Governor Schweitzer's veto of the local infrastructure spending was unconstitutional. So hopefully we will be able to move forward with the \$405,000 19th Street Bridge Project this coming year.

We are continuing to study our bridges and replace them as needed and as funding will allow. Western Federal Lands is going to spend \$5.5 million on rebuilding and improving Carbon County's West Fork Road, which will be a huge benefit to us. This project will probably get started in 2013 or 2014.

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

The court case in Carbon County involving starving horses, in which 27 counts of felony animal cruelty charges have been filed, is still pending.

We are still seeing increased interest in oil leasing. The Coal Mountain Mining Company is continuing to be positive in their endeavors and explorations to get coal mining going again in the Carbon County area. Their plan is to have a mine plan in place in approximately two years.

We completed three on going CTEP Projects – Red Lodge Lions Park Landscaping, Bridger Library Sidewalk Replacement, and Bearcreek Bank Restoration. Our only CTEP Project this coming year is the Roberts Community Project.

REQUESTS FOR INFORMATION

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

Carbon County Finance
PO Box 867
Red Lodge, MT 59068

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

CARBON COUNTY
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	
Cash and equivalents	\$ 3,822,444
Investments	2,630,845
Receivables:	
Taxes and assessments	506,743
Governments	262,148
Option tax repayment	240,225
Inventories	263,737
Capital assets:	
Land and construction in progress	127,130
Depreciable capital assets, net	6,878,356
Total assets	<u>14,731,628</u>
LIABILITIES	
Accounts payable-vendors	68,405
Long-term liabilities:	
Compensated absences:	
Due within one year	47,153
Due in more than one year	424,372
Total liabilities	<u>539,930</u>
NET ASSETS	
Invested in capital assets	7,005,486
Restricted for:	
General government	499,209
Public safety	1,085,586
Public works	2,741,494
Public health	31,136
Culture and recreation	189,799
Housing and community development	2,948
Capital projects	33,762
Unrestricted	2,602,278
Total net assets	<u>\$ 14,191,698</u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

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	\$ 2,134,003	\$ 213,305	\$ 8,001	\$ -	\$ (1,912,697)
Public safety	2,037,985	141,987	203,603	-	(1,692,395)
Public works	3,329,979	339,673	544,702	70,278	(2,375,326)
Public health	190,148	12,196	105,061	-	(72,891)
Social and economic services	117,401	1,566	-	-	(115,835)
Culture and recreation	487,446	-	52,511	-	(434,935)
Housing and community development	78,147	-	123,387	-	45,240
Other current charges	105,595	-	-	-	(105,595)
Total	\$ 8,480,704	\$ 708,727	\$ 1,037,265	\$ 70,278	(6,664,434)
General revenues:					
Property taxes					4,493,290
Intergovernmental					2,408,454
Investment earnings					61,057
Miscellaneous					127,918
Gain on disposal of capital assets					54,193
Total general revenues					7,144,912
Change in net assets					480,478
Net assets - beginning					13,507,245
Prior period adjustments					203,975
Net assets - ending					\$ 14,191,698

See notes to basic financial statements.

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

ASSETS	General	Road	Bridge	Public Safety	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,052,109	\$ 733,771	\$ 297,226	\$ 439,531	\$ 1,299,807	\$ 3,822,444
Investments	724,128	505,028	204,569	302,513	894,607	2,630,845
Receivables:						
Taxes and assessments	107,336	121,762	63,203	127,352	87,090	506,743
Governments	4,130	155,607	33,382	-	69,029	262,148
Option tax overpayment	240,225	-	-	-	-	240,225
Inventories	-	220,562	43,175	-	-	263,737
Total assets	\$ 2,127,928	\$ 1,736,730	\$ 641,555	\$ 869,396	\$ 2,350,533	\$ 7,726,142

LIABILITIES AND FUND BALANCES

Liabilities:	\$	\$	\$	\$	\$	\$
Accounts payable-vendors	107,336	121,762	63,203	127,352	87,090	506,743
Deferred revenue						
Total liabilities	107,336	121,762	63,203	127,352	155,495	575,148
Fund balances:						
Nonspendable:						
Inventory	-	220,562	43,175	-	-	263,737
Restricted for:						
General government	-	-	-	-	477,414	477,414
Public safety	-	-	-	742,044	196,558	938,602
Public works	-	1,394,406	535,177	-	342,571	2,272,154
Public health	-	-	-	-	30,992	30,992
Culture and recreation	-	-	-	-	164,918	164,918
Housing and community development	-	-	-	-	2,948	2,948
Capital projects	-	-	-	-	33,762	33,762
Committed for:						
General government	-	-	-	-	947,003	947,003
Unassigned	2,020,592	-	-	-	(1,128)	2,019,464
Total fund balances	2,020,592	1,614,968	578,352	742,044	2,195,038	7,150,994
Total liabilities and fund balances	\$ 2,127,928	\$ 1,736,730	\$ 641,555	\$ 869,396	\$ 2,350,533	\$ 7,726,142

See notes to basic financial statements.

CARBON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balance, governmental funds	\$ 7,150,994
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	7,005,486
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	506,743
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(471,525)</u>
Net assets of governmental activities	<u>\$ 14,191,698</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, 2011

	General	Road	Bridge	Public Safety	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,319,765	\$ 1,002,058	\$ 514,029	\$ 1,041,921	\$ 885,940	\$ 4,763,713
Fines and forfeitures	65,138	-	-	-	6,543	71,681
Licenses and permits	13,430	1,400	-	4,760	-	19,590
Intergovernmental	243,993	517,838	74,291	88,866	2,590,759	3,515,747
Charges for services	180,851	400	-	39,169	142,913	363,333
Investment earnings	48,522	5,737	37	74	6,687	61,057
Miscellaneous	41,298	68,674	270	8,537	9,389	128,168
Total revenues	1,912,997	1,596,107	588,627	1,183,327	3,642,231	8,923,289
EXPENDITURES						
Current:						
General government	1,877,873	-	-	-	197,621	2,075,494
Public safety	105,401	-	-	1,336,881	452,323	1,894,605
Public works	8,440	1,649,840	767,171	-	438,457	2,863,908
Public health	53,592	-	-	-	136,556	190,148
Social and economic services	43,560	-	-	-	73,841	117,401
Culture and recreation	-	-	-	-	481,266	481,266
Housing and community development	-	-	-	-	78,147	78,147
Other current charges	105,595	-	-	-	-	105,595
Capital outlay	81,636	726,899	386,580	59,424	110,091	1,364,630
Total expenditures	2,276,097	2,376,739	1,153,751	1,396,305	1,968,302	9,171,194
Excess (deficiency) of revenues over expenditures	(363,100)	(780,632)	(565,124)	(212,978)	1,673,929	(247,905)
OTHER FINANCING SOURCES (USES)						
Insurance recoveries	-	147,385	-	5,817	6,505	159,707
Sale of capital assets	1,200	-	-	-	-	1,200
Transfers in	635,756	842,994	183,614	177,755	202,262	2,042,381
Transfers out	-	-	-	-	(2,042,381)	(2,042,381)
Total other financing sources (uses)	636,956	990,379	183,614	183,572	(1,833,614)	160,907
Net change in fund balances	273,856	209,747	(381,510)	(29,406)	(159,685)	(86,998)
Fund balances - beginning	1,542,761	1,405,221	959,862	771,450	2,354,723	7,034,017
Prior period adjustments	203,975	-	-	-	-	203,975
Fund balances - ending	\$ 2,020,592	\$ 1,614,968	\$ 578,352	\$ 742,044	\$ 2,195,038	\$ 7,150,994

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, 2011

Net change in fund balances - total governmental funds	\$ (86,998)
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.	702,380
This is the amount by which capital outlay (\$1,364,630) exceeded depreciation (\$662,250) in the current period.	
The net effect of various transactions involving capital assets (i.e., sales, donations, insurance and trade-ins) is to decrease net assets.	(94,392)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(16,300)
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	<u>(24,212)</u>
Change in net assets of governmental activities	<u>\$ 480,478</u>

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2011

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 5,403,173	\$ 386,276
Investments	3,829,779	-
Taxes and assessments receivable	-	1,304,604
Total assets	9,232,952	\$ 1,690,880
LIABILITIES		
Accounts payable	-	\$ 92,365
Due to special districts	-	105,025
Due to state	-	360,791
Due to schools	-	893,427
Due to cities/towns	-	239,272
Total liabilities	-	\$ 1,690,880
NET ASSETS		
Held in trust for external investment pool participants	\$ 9,232,952	

See notes to basic financial statements.

CARBON COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Year Ended June 30, 2011

		External
ADDITIONS		Investment
Contributions	\$ 14,595,838	Trust Fund
Investment earnings:		
Interest	92,553	
Total net investment earnings	92,553	
Total additions	14,688,391	
DEDUCTIONS		
Distributions to participants	15,094,991	
Total deductions	15,094,991	
Change in net assets	(406,600)	
Net assets - beginning	9,639,552	
Net assets - ending	\$ 9,232,952	

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 governmental Accounting Standards Board. The government that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

unrestricted resources as they are needed.

The government reports the following major governmental funds:

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

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

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

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

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

Additionally, the government reports the following fund types:

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

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

Assets, Liabilities 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. 57 percent of the investment pool belongs to these districts.

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

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

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

Receivables

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Inventories

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

Capital Assets

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

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

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

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

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

Fund Equity

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

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

Beginning fund balances for the governmental funds have been restated to reflect the above classifications.

The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption or amendment of the budget.

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

Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The CTEP-historic preservation fund (\$1,128) fund had a deficit fund balance as of June 30, 2011. The deficit occurred because current year revenues exceeded expenditures. The deficit is expected to be eliminated through a match contribution.

NOTE 3. 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	\$ 6,453,289
Fiduciary funds	<u>9,619,228</u>
	<u>\$ 16,072,517</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2011, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 2,221	\$ -	\$ 2,221
Cash in banks:			
Demand deposits	6,460,016	-	6,460,016
Time deposits	-	1,809,174	1,809,174
Savings deposits	1,499,304	-	1,499,304
Brokers:			
U.S. Government securities	-	4,530,000	4,530,000
Money markets	(1,434,782)	-	(1,434,782)
Mutual funds	-	121,450	121,450
Repurchase agreement	1,756,760	-	1,756,760
Short-term Investment Program (STIP)	1,328,374	-	1,328,374
	\$ 9,611,893	\$ 6,460,624	\$ 16,072,517

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, 2011, \$10,260,602 of the government's bank balance of \$11,022,073 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 \$ 10,260,602

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, 2011, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2011 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	1.00-1.25	Various	\$ 4,530,000	\$ 4,530,000	\$ 4,528,319	70.12%
Certificates of deposit	.07-1.00	Various	1,809,174	1,809,174	1,809,174	28.00%
Mutual funds	N/A	N/A	N/A	121,450	126,499	1.88%
				\$ 6,460,624	\$ 6,463,992	

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 500,000	\$ -	\$ 4,030,000	\$ 4,530,000	\$ 4,528,319
Repurchase agreement	-	-	1,756,760	1,756,760	1,756,760
Money markets with brokers	(1,434,782)	-	-	(1,434,782)	(1,434,782)
	<u>\$ (934,782)</u>	<u>\$ -</u>	<u>\$ 5,786,760</u>	<u>4,851,978</u>	<u>4,850,297</u>
Uncategorized:					
Mutual funds				121,450	126,499
STIP				<u>1,328,374</u>	<u>1,328,374</u>
				<u>\$ 6,301,802</u>	<u>\$ 6,305,170</u>

Following is the condensed schedule of changes in net assets and net assets for the investment pool for the year ended June 30, 2011:

	Internal		External		Total
Net assets - beginning of year	\$ 6,946,711	\$ 9,639,552	\$ 16,586,263		
Contributions from participants	9,843,488	14,595,838	24,439,326		
Investment earnings	60,913	92,553	153,466		
Distributions to participants	(10,011,547)	(15,094,991)	(25,106,538)		
Net assets - end of year	<u>\$ 6,839,565</u>	<u>\$ 9,232,952</u>	<u>\$ 16,072,517</u>		

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010		Additions		Deletions		Balance June 30, 2011	
Capital assets, not being depreciated	\$ 97,077	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,077	
Land	156,573	2,025	(128,545)	30,053				
Construction-in-progress	253,650	2,025	(128,545)	127,130				
Total capital assets, not being depreciated								
Capital assets, being depreciated	2,265,565	375,634					2,641,199	
Buildings/improvements	5,680,411	638,247	(280,235)	6,038,423				
Machinery and equipment	2,046,151	472,261	-	2,518,412				
Infrastructure	9,992,127	1,486,142	(280,235)	11,198,034				
Total capital assets, being depreciated								
Less accumulated depreciation for:								
Buildings/improvements	(689,998)	(66,775)	-	(756,773)				
Machinery and equipment	(2,878,368)	(523,484)	190,851	(3,211,001)				
Infrastructure	(279,913)	(71,991)	-	(351,904)				
Total accumulated depreciation	<u>(3,848,279)</u>	<u>(662,250)</u>	<u>190,851</u>	<u>(4,319,678)</u>				
Total capital assets, being depreciated, net	6,143,848	823,892	(89,384)	6,878,356				
Capital assets, net	<u>\$ 6,397,498</u>	<u>\$ 825,917</u>	<u>\$ (217,929)</u>	<u>\$ 7,005,486</u>				

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

General government	\$ 59,982
Public safety	143,420
Public works	452,895
Culture and recreation	<u>5,953</u>
Total depreciation	<u>\$ 662,250</u>

Transfers

Interfund transfers consisted of the following:

	Transfer In	Transfer Out	Total
General	\$ 635,756	\$ -	\$ 635,756
Road	842,994	-	842,994
Bridge	183,614	-	183,614
Public Safety	177,755	-	177,755
Nonmajor governmental funds	<u>202,262</u>	<u>(2,042,381)</u>	<u>(1,840,119)</u>
	<u>\$ 2,042,381</u>	<u>\$ (2,042,381)</u>	<u>\$ -</u>

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

Long-Term Debt

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Compensated absences	<u>\$ 447,313</u>	<u>\$ 24,212</u>	<u>\$ -</u>	<u>\$ 471,525</u>	<u>\$ 47,153</u>

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

NOTE 4. 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.

Prior Period Adjustments

Prior period adjustments resulted from correcting the option tax allocation between the county and incorporated cities and towns for fiscal years 2009 and 2010.

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts and purchase orders, of approximately \$100,000, primarily for construction projects and equipment.

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

Retirement Plans

The government participates in two statewide mandatory cost-sharing multiple employer defined benefit retirement plans. The Sheriffs 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% 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, 2011, 2010 and 2009 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:

	2011	2010	2009
SRS	\$ 88,537	\$ 83,722	\$ 81,351
PERS	347,385	340,358	314,069
	\$ 435,922	\$ 424,080	\$ 395,420

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o In December 2010, the Governmental Accounting Standards Board (GASB) approved Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011.
- o In November 2010, the Governmental Accounting Standards Board (GASB) approved Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34. The provisions of this statement are effective for periods beginning after June 15, 2012.

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, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,156,633	\$1,156,633	\$1,319,765
Fines and forfeitures	70,600	70,600	65,138
Licenses and permits	11,200	11,200	13,430
Intergovernmental	254,384	254,384	243,993
Charges for services	174,636	174,636	180,851
Investment earnings	75,000	75,000	48,522
Miscellaneous	26,000	26,000	41,298
Total revenues	1,768,453	1,768,453	1,912,997
EXPENDITURES			
Current:			
General government	2,337,520	2,337,520	1,877,873
Public safety	127,840	127,840	105,401
Public works	10,000	10,000	8,440
Public health	64,210	64,210	53,592
Social and economic services	49,865	49,865	43,560
Other current charges	131,000	131,000	105,595
Capital outlay	224,000	224,000	81,636
Total expenditures	2,944,435	2,944,435	2,276,097
Excess (deficiency) of revenues over expenditures	(1,175,982)	(1,175,982)	(363,100)
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	1,200
Transfers in	635,756	635,756	635,756
Total other financing sources	635,756	635,756	636,956
Net change in fund balance	\$ (540,226)	\$ (540,226)	273,856
Fund balance - beginning			1,542,761
Prior period adjustments			203,975
Fund balance - ending			\$ 2,020,592

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, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 993,220	\$ 993,220	\$ 1,002,058
Licenses and permits	1,500	1,500	1,400
Intergovernmental	348,654	348,654	517,838
Charges for services	300	300	400
Investment earnings	5,000	5,000	5,737
Miscellaneous	3,000	3,000	68,674
Total revenues	1,351,674	1,351,674	1,596,107
EXPENDITURES			
Current:			
Public works	1,739,750	1,739,750	1,649,840
Capital outlay	963,000	963,000	726,899
Total expenditures	2,702,750	2,702,750	2,376,739
Excess (deficiency) of revenues over (under) expenditures	<u>(1,351,076)</u>	<u>(1,351,076)</u>	<u>(780,632)</u>
OTHER FINANCING SOURCES			
Insurance recoveries	115,530	115,530	147,385
Sale of capital assets	10,000	10,000	-
Transfers in	842,994	842,994	842,994
Total other financing sources	968,524	968,524	990,379
Net change in fund balance	<u>\$ (382,552)</u>	<u>\$ (382,552)</u>	209,747
Fund balance - beginning			1,405,221
Fund balance - ending			\$ 1,614,968

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, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 510,622	\$ 510,622	\$ 514,029
Intergovernmental	201,420	201,420	74,291
Charges for services	2,000	2,000	-
Investment earnings	-	-	37
Miscellaneous	100	100	270
Total revenues	714,142	714,142	588,627
EXPENDITURES			
Current:			
Public works	850,550	850,550	767,171
Capital outlay	512,796	512,796	386,580
Total expenditures	1,363,346	1,363,346	1,153,751
Excess (deficiency) of revenues over (under) expenditures	(649,204)	(649,204)	(565,124)
OTHER FINANCING SOURCES			
Transfers in	183,614	183,614	183,614
Total other financing sources	183,614	183,614	183,614
Net change in fund balance	\$ (465,590)	\$ (465,590)	(381,510)
Fund balance - beginning			959,862
Fund balance - ending			\$ 578,352

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, 2011

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$1,035,144	\$ 1,035,144	\$ 1,041,921
Licenses and permits	4,000	4,000	4,760
Intergovernmental	144,525	144,525	88,866
Charges for services	46,000	46,000	39,169
Investment earnings	-	-	74
Miscellaneous	8,000	8,000	8,537
Total revenues	1,237,669	1,237,669	1,183,327
EXPENDITURES			
Current:			
Public safety	1,571,070	1,571,070	1,336,881
Capital outlay	68,000	68,000	59,424
Total expenditures	1,639,070	1,639,070	1,396,305
Excess (deficiency) of revenues over (under) expenditures	(401,401)	(401,401)	(212,978)
OTHER FINANCING SOURCES			
Insurance recoveries	-	-	5,817
Transfers in	177,755	177,755	177,755
Total other financing sources	177,755	177,755	183,572
Net change in fund balance	\$ (223,646)	\$ (223,646)	(29,406)
Fund balance - beginning			771,450
Fund balance - ending			\$ 742,044

See notes to required supplementary information.

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2011

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.

OTHER SUPPLEMENTARY INFORMATION

CARBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Award/Pass-through Grantor's Number	Program or Award Amount	Balance July 1, 2010	Receipts	Expenditures/Disbursed	Returned to Grantor/Other	Balance June 30, 2011
<u>U.S. Department of Transportation:</u>								
Passed through the Montana Department of Transportation:								
State and Community Highway Safety	20.600	2010-02-20-10	\$ 4,000	\$ -	\$ 2,147	\$ 2,147	\$ -	\$ -
Subtotal					2,147	2,147	-	-
Highway Planning and Construction Cluster:								
Recreational Trails Program	20.219	RT2009-06	24,273	-	24,273	24,273	-	-
Subtotal					24,273	24,273	-	-
Highway Planning and Construction	20.205	STPE 5(43)	43,525	-	43,525	43,525	-	-
Highway Planning and Construction	20.205	STPE 5(45)	18,701	-	-	18,700	-	(18,700)
Highway Planning and Construction	20.205	STPE 5(42)	94,345	-	79,174	86,448	-	(7,274)
Subtotal					122,699	148,673	-	(25,974)
Subtotal Highway Planning and Construction Cluster								
			14,228	-	11,006	11,006	-	-
Passed through the Montana Public Safety Services Bureau:								
E-911 Grant Program	20.615	NHTSA-2008-0142		-	11,006	11,006	-	-
Subtotal					11,006	11,006	-	-
Total U.S. Department of Transportation								
					160,125	186,099	-	(25,974)
<u>U.S. Department of Homeland Security:</u>								
Passed through the Montana Department of Fish, Wildlife, and Parks:								
Boating Safety Financial Assistance	97.012	N/A	3,000	(1,500)	3,000	1,500	-	-
Subtotal					3,000	1,500	-	-
Passed through the Montana Department of Military Affairs - Disaster & Emergency Services Division:								
Homeland Security Grant Program	97.067	2009-SS-T8-0005	17,439	(4,387)	7,954	3,567	-	-
Subtotal					7,954	3,567	-	-
Emergency Management Performance Grants	97.042	2010-EP-EQ-0015	50,610	-	39,648	43,778	-	(4,130)
Subtotal					39,648	43,778	-	(4,130)
Total U.S. Department of Homeland Security								
					50,602	48,845	-	(4,130)
<u>U.S. Department of Housing and Urban Development:</u>								
Passed through the Montana Department of Commerce:								
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	MT-CDBG-ED08-07	600,000	-	78,147	78,147	-	-
Total U.S. Department of Housing and Urban Development								
					78,147	78,147	-	-
<u>U.S. Department of Health and Human Services:</u>								
Passed through the Montana Department of Public Health and Human Services:								
Maternal and Child Health Services Block Grant to the States	93.994	11-07-5-01-005-0	9,994	-	4,997	8,177	-	(3,180)
Subtotal					4,997	8,177	-	(3,180)
Immunization Grants	93.268	10-07-4-31-006-0	5,160	-	5,160	5,160	-	-
Immunization Grants	93.268	11-07-4-31-006-0	5,160	-	2,560	5,160	-	(2,580)
Subtotal					7,740	10,320	-	(2,580)
Public Health Emergency Preparedness	93.069	10-07-6-11-006-0	138,616	-	37,388	23,688	(13,700)	-
Public Health Emergency Preparedness	93.069	11-07-6-11-006-0	78,641	-	41,253	65,789	-	(24,536)
Subtotal					78,641	89,477	(13,700)	(24,536)
Total U.S. Department of Health and Human Services								
					91,378	107,974	(13,700)	(30,296)

CARBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Award/Pass-through Number	Program or Award Amount	Balance July 1, 2010	Receipts	Expenditures/Disbursed	Returned to Grantor/Other	Balance June 30, 2011
<u>U.S. Department of Energy.</u>								
Passed through the Montana Department of Environmental Quality:								
ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	211027	63,648	-	63,648	63,648	-	-
Total U.S. Department of Energy				-	63,648	63,648	-	-
<u>U.S. Department of the Interior.</u>								
Direct Program:								
Historic Preservation Fund - Grants in Aid	15.904	MT-10-015	5,500	-	5,500	5,500	-	-
Total U.S. Department of the Interior				-	5,500	5,500	-	-
<u>U.S. Department of Agriculture.</u>								
Passed through the Montana State Auditor's Office:								
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A	25,662	-	25,662	25,662	-	-
Subtotal				-	25,662	25,662	-	-
Passed through the Montana Department of Agriculture:								
Cooperative Forestry Assistance	10.664	2009-708TX	41,400	-	22,799	22,799	-	-
Subtotal				-	22,799	22,799	-	-
Total U.S. Department of Agriculture				-	48,461	48,461	-	-
Total Federal Awards				\$ (5,887)	\$ 497,861	\$ 538,674	\$ (13,700)	\$ (60,400)

Note to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF ACCOUNTING

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

NOTE B - SUBRECIPIENTS

Certain federal funds are provided to Beartooth RC&D, a subrecipient organization of the County. \$78,147 in expenditures (CFDA No. 14.228) incurred by Beartooth RC&D were reimbursed by the County and included on the schedule as part of major program pass-through awards for the year ended June 30, 2011.

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

There were no prior year findings and questioned costs related to federal award programs.

OLNESS & ASSOCIATES, P. C.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2011, which collectively comprise the government's basic financial statements and have issued our report thereon dated March 8, 2012. The report on the governmental activities and the road and bridge funds was qualified because we did not observe year-end inventory counts and the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Also, the report on the governmental activities was qualified because management has not recorded the other post employment benefit (OPEB) liability and related expense. Except as discussed in the second sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 and questioned costs, 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 and questioned costs to be material weaknesses. (Findings 2011-1 through 2011-3)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (Finding 2011-4)

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 and questioned costs as item 2011-5.

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

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

Oluss & Associates, PC

March 8, 2012

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Carbon County, Montana's (the government) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the government's major federal programs for the year ended June 30, 2011. The government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the government's management. Our responsibility is to express an opinion on the government's compliance based on our audit.

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

As described in item 2011-6 in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Highway Planning and Construction Cluster. Compliance with such requirements is necessary, in our opinion, for the government to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 (CONTINUED)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-6 through 2011-8 to be material weaknesses.

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

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

O'Leary & Associates, PC

March 8, 2012

CARBON COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified? yes none reported
- Noncompliance material to the financial statements noted? yes no

FEDERAL AWARDS:

Internal control over major programs:

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

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

Qualified for the Highway Planning and Construction Cluster
 Unqualified for all other major programs

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

yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.219 and 20.205	Highway Planning Construction Cluster
14.228	Community Development Block Grant/State Program and Non-Entitlement Grants in Hawaii
10.665	Secure Payments for States and Counties Containing Federal lands
	\$300,000
Dollar threshold used to distinguish between type A and type B programs?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-1. FINANCIAL STATEMENT PREPARATION

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

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

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

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

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

internal control would be classified as material.

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

2011-2. 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, 2011.

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.

2011-3. 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.

2011-4. PROTESTED TAXES

Criteria: General ledger protested taxes receivables, subsidiary ledgers and the protested taxes fund (No. 7130) should all agree at the end of each month.

Condition: As of June 30, 2011, the general ledger protested taxes receivables, subsidiary ledgers and the protested taxes fund (No. 7130) were not in agreement.

Cause: Unknown.

Effect: Inaccurate financial information.

Recommendation: The Treasurer should develop detail procedures to formally reconcile the protested taxes fund, protested taxes subsidiary ledger and the protested taxes receivable accounts in the general ledger. These procedures should be performed at the end of each month and filed for future reference.

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

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

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

Cause: Unknown.

CARBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Effect: Noncompliance with grant terms and conditions.

Questioned Cost: None.

Recommendation: On future federally funded projects with Davis-Bacon requirements, we recommend the County establish a process to ensure Davis-Bacon provisions are complied with.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF TRANSPORTATION:

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

Finding 2011-5 applies to this federal award program.

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

Finding 2011-01 applies to these federal award programs.

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

Finding 2011-03 applies to these federal award programs.

CARBON COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2010-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2010-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2010-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2010-4. LOCAL OPTION MOTOR VEHICLE TAX	IMPLEMENTED
2010-5. COMPETITIVE BIDDING	IMPLEMENTED