

**CARBON COUNTY
RED LODGE, MONTANA**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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CARBON COUNTY

ORGANIZATION

June 30, 2014

BOARD OF COUNTY COMMISSIONERS

John Grewell	Board Chairman
Douglas Tucker	Commissioner
John Prinkki	Commissioner

ELECTED OFFICIALS

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

OLNESS & ASSOCIATES, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

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

ERNEST J. OLNESS, CPA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions

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

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

Qualified Opinions

In our opinion, except for the effects of the matter described in the first paragraph under the heading "Basis for Qualified Opinions" and except for the possible effects of the matter discussed in the second paragraph under the heading "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the road fund and the bridge fund of the government, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund (excluding the road and bridge funds) and the aggregate remaining fund information of the government as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

O'Hess & Associates, PC

Billings, Montana
May 11, 2015

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, 2014. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

- Net position of our governmental activities increased by \$539,023 or 3.5 percent.
- During the year, our government had expenses that were \$1,280,979 more than the \$7,692,165 generated in tax and other general revenues for governmental programs.
- Total cost of all of programs increased \$172,006.
- Total governmental revenues were \$9,512,167, a decrease of 1% over the prior year, while governmental expenditures decreased to \$8,973,144, a decrease of 1% over the prior year.
- The General fund reported a decrease this year of \$594,294 in fund balance.
- There was a General fund budget amendment this year (\$30,000) for a CDBG grant. Carbon County continues to keep its capital equipment, buildings, roads, and bridges in good condition and up to date. We remain debt free.

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

Fund Financial Statements

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

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

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

Fiduciary Funds

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

NOTES TO BASIC FINANCIAL STATEMENT

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

THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In our case, assets exceeded liabilities by \$15,855,746, as of June 30, 2014.

Net position of our governmental activities increased by \$539,023 or 3.5 percent. The increase was mainly due to capital grants and contributions

Of the County's total net position (\$15,855,746), our net investment in capital assets accounts for \$10,253,736 or 65%. Capital assets reflect the County's investments in land, buildings, improvements, infrastructure and machinery and equipment. Carbon County uses these capital assets to provide services to citizens and the community; consequently these assets are not available for future spending.

Unrestricted net position accounts for \$1,171,434 or 7% of the total net position. Unrestricted net position is primarily used for cash flow purposes in between property tax collections, which are due in 50 percent installments on November 30 and May 31 of each year, and also to provide against unforeseen costs or events.

CARBON COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS

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

Carbon County's Net Position

	2014	2013	Change
Current and other assets	\$ 6,403,837	\$ 7,193,641	\$ (789,804)
Capital assets	10,253,736	8,685,880	1,567,856
Total assets	16,657,573	15,879,521	778,052
Other liabilities	243,505	44,465	199,040
Long-term liabilities	558,322	518,333	39,989
Total liabilities	801,827	562,798	239,029
Net position:			
Net investment in capital assets	10,253,736	8,685,880	1,567,856
Restricted	4,430,576	4,745,003	(314,427)
Unrestricted	1,171,434	1,885,840	(714,406)
	\$ 15,855,746	\$ 15,316,723	\$ 539,023

Carbon County's Changes in Net Position

	2014	2013	Change
Revenues:			
Program revenues:			
Charges for services	\$ 730,973	\$ 716,351	\$ 14,622
Operating grants and contributions	572,260	700,753	(128,493)
Capital grants and contributions	516,769	614,054	(97,285)
General revenues:			
Taxes	4,992,837	4,895,430	97,407
Intergovernmental	2,537,760	2,486,667	51,093
Interest	34,894	42,926	(8,032)
Miscellaneous	76,499	57,908	18,591
Gain on disposal of capital assets	50,175	118,016	(67,841)
Total revenues	9,512,167	9,632,105	(119,938)
Expenses:			
General government	2,385,783	2,312,057	73,726
Public safety	2,288,356	2,341,777	(53,421)
Public works	3,493,024	3,253,863	239,161
Public health	208,971	198,671	10,300
Social and economic services	127,018	118,769	8,249
Culture and recreation	343,163	336,904	6,259
Housing and community development	3,693	123,545	(119,852)
Other current charges	123,136	115,552	7,584
Total expenses	8,973,144	8,801,138	172,006
Change in net position	539,023	830,967	(291,944)
Net position, beginning	15,316,723	14,485,756	830,967
Net position, ending	\$ 15,855,746	\$ 15,316,723	\$ 539,023

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 and deferred inflows, 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, 2014, Carbon County's governmental funds reported combined fund balances of \$5,706,057, a decrease of \$930,756 from the prior year. \$1,394,894 is unassigned and the remaining \$4,311,163 is non-spendable, restricted or committed.

The general fund is the primary operating fund of Carbon County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. As of June 30, 2014, the general fund balance was \$1,394,894, a decrease from the prior year of \$594,294. Available fund balance was used to fund current year operations.

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 \$1,003,664, a decrease of \$346,837 over the prior year. Available fund balance was used to fund current year operations.

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 \$675,029, an increase of \$2,370 over the prior year.

The public safety fund accounts for resources accumulated and payments made for providing law enforcement and public safety services. Fund balance of the public safety fund was \$825,033, an increase of \$36,722 over the prior year.

General Fund Budgetary Highlights.

There was a General fund budget amendment this year (\$30,000)

for a CDBG grant. General fund expenditures were \$351,893 less than the amount budgeted. Revenues received were \$51,155 more than anticipated. Various capital outlay and contracts for services did not transpire by year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Carbon County's investment in capital assets (net of accumulated depreciation) as of June 30, 2014 was \$10,253,736. This investment in capital assets includes land, buildings/improvements, machinery and equipment, and infrastructure. During fiscal year 2014, significant capital additions included purchase of the old Beartooth Clinic (to be used for the new annex), Greenough simulcast microwave system, road and sheriff equipment and vehicles and the Montaqu and Poverty Flats bridges.

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, 2014 was \$558,322. This is the only long-term outstanding liability Carbon County has.

THE GOVERNMENT'S FUTURE

Carbon County's financial status remains solid. All of our fund reserves, but the Bridge Fund, are at the maximum level of 33% of the appropriations as allowed by Montana state law. The Bridge Fund Reserve was dropped to 25% of total appropriations so PILT funds could be allocated to implement the Simulcast Communications System to expand coverage for dispatching emergency responders. Our county-wide taxable valuation for fiscal year 2014 increased by 2.2% and our rural taxable valuation for road purposes increased by 2.3%. The revenues from our PILT, Federal Mineral Royalties, and Oil & Gas Production programs increased in total by \$48,578 from the previous year. Much of the increase was attributed to full funding of the PILT program in 2014 after the 2013 sequestration. 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 2014-2015, 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. However, fund cash reserves were dropped to 31% for the General, Fair, Airport, District Court, and Noxious Weed Funds. Cash Reserves for the Road, Bridge, Extension, and Public Safety Funds were dropped to 30%. Reserves were set below the maximum level of 33% allowed by Montana State Law to finance the Simulcast Communications System.

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 the county governments. But we, as counties, have to be fiscally responsible to our county taxpayers and protect our financial sources and abilities to serve our county citizens.

Offices previously housed in the Carbon County Annex Building moved into the newly remodeled Carbon County Personnel Public Services Building in February 2015. Carbon County is very excited to have all these offices housed in a single story ADA accessible building.

We are continuing to study our bridges and replace them as needed and as funding will allow. In the Spring of 2015, Carbon County will close out Treasure State Endowment Program (TSEP) grants for the replacement of Montaquia Road Bridge and Poverty Flat Bridge and is awaiting State appropriations for the award of 2015-2016 TSEP Grants for which we have applied.

In the spring of 2015, Western Federal Lands will let bids for the reconstruction of the West Fork Road, west of Red Lodge. Construction is set to begin in the late spring or early summer of 2015 and will continue in the spring and summer of 2016. The reconstruction will span the portion of West Fork Road from the Highway 212 intersection to the intersection with Ski Run Road.

The Montana Department of Transportation will continue construction on the Red Lodge Northwest Project on Highway 78 and the US 212/310 Realignment project between Rockvale and Laurel. The realignment will impact a number of roads in the County and the Joliet Road Crew will be realigning Farewell Road to accommodate increased traffic flow once the new highway is completed. MDT will also be finishing the Red Lodge 8th to Robinson Project which will introduce the County's first roundabouts.

Carbon County is also working to secure easements on the Railbed Road so that the Forest Service can improve the road and increase access to public lands in the Pryor Mountains.

Carbon County has approved a development permit for the Mud Springs Wind project. The project will consist of three 80 MW phases located in the Sage Creek valley and a 230 kV transmission line that will continue into Wyoming to connect with an existing PacificCorp transmission line. The project is expected to cost over \$500,000 and will have a significant increase on the County's Taxable Valuation.

The Carbon County Planning Board has completed the Growth Policy Update and it was approved by the Commissioners in March 2015. The Planning Board will start on an update to the Development Regulations in the spring of 2015 is looking to change the development approval process to ensure that the public has notice of large developments before they are approved. They are also looking at opportunities to curb impacts to public infrastructure from new developments.

Carbon County has approved Community Transportation Enhancement Project (CTEP) funding to the Roberts Community Foundation for community entrance signs and Beartooth Recreational Trails Association for bike racks. The remaining CTEP allocation was transferred to the City of Red Lodge to assist with their projects. Both projects are in the final planning phases and the installation of the signs and bike racks will begin in the spring and summer of 2015.

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

REQUESTS FOR INFORMATION

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

Carbon County Finance
PO Box 887
Red Lodge, MT 59068

406-446-1595

anewell@carboncomt.com

CARBON COUNTY
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	
Cash and equivalents	\$ 3,425,919
Investments	2,154,889
Receivables:	
Taxes and assessments	454,275
Governments	191,434
Option tax repayment	46,624
Inventories	130,696
Capital assets:	
Land and construction in progress	660,376
Capital assets, net of accumulated depreciation	<u>9,593,360</u>
Total assets	<u><u>16,657,573</u></u>
LIABILITIES	
Accounts payable-vendors	243,505
Long-term liabilities:	
Compensated absences:	
Due within one year	55,832
Due in more than one year	<u>502,490</u>
Total liabilities	<u><u>801,827</u></u>
NET POSITION	
Net investment in capital assets	10,253,736
Restricted for:	
General government	473,491
Public safety	1,089,612
Public works	2,599,532
Public health	38,686
Social and economic	57,264
Culture and recreation	134,618
Housing and community development	3,001
Capital projects	34,372
Unrestricted	<u>1,171,434</u>
Total net position	<u><u>\$ 15,855,746</u></u>

CARBON COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,385,783	\$ 220,073	\$ 16,177	\$ -	\$ (2,149,533)
Public safety	2,288,356	126,151	270,881	-	(1,891,324)
Public works	3,493,024	366,179	180,179	516,769	(2,429,897)
Public health	208,971	18,072	104,265	-	(86,634)
Social and economic services	127,018	498	-	-	(126,520)
Culture and recreation	343,163	-	758	-	(342,405)
Housing and community development	3,693	-	-	-	(3,693)
Other current charges	123,136	-	-	-	(123,136)
Total	\$ 8,973,144	\$ 730,973	\$ 572,260	\$ 516,769	(7,153,142)
General revenues:					
					4,992,837
					2,537,760
					34,894
					76,499
					50,175
					<u>7,692,165</u>
					539,023
					<u>15,316,723</u>
					<u>\$ 15,855,746</u>

CARBON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

	General	Road	Bridge	Public Safety	Total Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 962,098	\$ 561,325	\$ 385,731	\$ 492,371	\$ 1,024,394	\$ 3,425,919
Investments	605,156	353,071	242,624	309,700	644,338	2,154,889
Receivables:						
Taxes and assessments	95,154	119,215	56,282	112,970	70,654	454,275
Governments	14,767	-	15,000	22,962	138,705	191,434
Option tax overpayment	46,624	-	-	-	-	46,624
Inventories	-	99,022	31,674	-	-	130,696
Total assets	\$ 1,723,799	\$ 1,132,633	\$ 731,311	\$ 938,003	\$ 1,878,091	\$ 6,403,837
LIABILITIES						
Accounts payable-vendors	\$ 233,751	\$ 9,754	\$ -	\$ -	\$ -	\$ 243,505
Total liabilities	233,751	9,754	-	-	-	243,505
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - taxes and assessments	95,154	119,215	56,282	112,970	70,654	454,275
Total deferred inflows of resources	95,154	119,215	56,282	112,970	70,654	454,275
FUND BALANCES						
Nonspendable:						
Inventory	-	99,022	31,674	-	-	130,696
Restricted for:						
General government	-	-	-	-	459,097	459,097
Public safety	-	-	-	825,033	140,154	965,187
Public works	-	904,642	643,355	-	727,371	2,275,368
Public health	-	-	-	-	38,676	38,676
Social and economic services	-	-	-	-	52,366	52,366
Culture and recreation	-	-	-	-	112,692	112,692
Housing and community development	-	-	-	-	3,001	3,001
Capital projects	-	-	-	-	34,372	34,372
Committed for:						
General government	-	-	-	-	239,708	239,708
Unassigned	1,394,894	-	-	-	-	1,394,894
Total fund balances	1,394,894	1,003,664	675,029	825,033	1,807,437	5,706,057
Total liabilities, deferred inflows resources and fund balances	\$ 1,723,799	\$ 1,132,633	\$ 731,311	\$ 938,003	\$ 1,878,091	\$ 6,403,837

CARBON COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances, governmental funds	\$ 5,706,057
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	10,253,736
Other long-term assets are unavailable to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	454,275
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(558,322)</u>
Net position of governmental activities	<u>\$ 15,855,746</u>

CARBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Road	Bridge	Public Safety	Total Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes/assessments	\$ 1,482,359	\$ 1,089,796	\$ 572,642	\$ 1,149,039	\$ 1,012,263	\$ 5,306,099
Fines and forfeitures	62,328	-	-	-	4,538	66,866
Licenses and permits	18,960	900	-	7,320	-	27,180
Intergovernmental	235,694	300,553	311,594	176,436	2,358,146	3,382,423
Charges for services	195,718	970	1,138	40,433	143,494	381,753
Investment earnings	29,912	4,332	-	-	650	34,894
Miscellaneous	38,029	22,055	700	6,894	8,821	76,499
Total revenues	2,063,000	1,418,606	886,074	1,380,122	3,527,912	9,275,714
EXPENDITURES						
Current:						
General government	2,011,687	-	-	-	265,088	2,276,775
Public safety	89,474	-	-	1,554,408	487,855	2,131,737
Public works	6,371	1,652,197	896,691	-	362,571	2,917,830
Public health	87,796	-	-	-	121,175	208,971
Social and economic services	44,347	-	-	-	81,315	125,662
Culture and recreation	1,128	-	-	-	332,624	333,752
Housing and community development	-	-	-	-	3,693	3,693
Other current charges	123,136	-	-	-	-	123,136
Capital outlay	293,355	466,946	713,853	76,247	542,768	2,093,169
Total expenditures	2,657,294	2,119,143	1,610,544	1,630,655	2,197,089	10,214,725
Excess (deficiency) of revenues over expenditures	(594,294)	(700,537)	(724,470)	(250,533)	1,330,823	(939,011)
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	-	-	-	8,255	-	8,255
Transfers in	-	353,700	726,840	279,000	368,570	1,728,110
Transfers out	-	-	-	-	(1,728,110)	(1,728,110)
Total other financing sources (uses)	-	353,700	726,840	287,255	(1,359,540)	8,255
Net change in fund balances	(594,294)	(346,837)	2,370	36,722	(28,717)	(930,756)
Fund balances - beginning	1,989,188	1,350,501	672,659	788,311	1,836,154	6,636,813
Fund balances - ending	\$ 1,394,894	\$ 1,003,664	\$ 675,029	\$ 825,033	\$ 1,807,437	\$ 5,706,057

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, 2014

Net change in fund balances - total governmental funds	\$ (930,756)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which capital outlay (\$2,093,169) exceeded depreciation (\$811,599) in the current period.	1,281,570
The net effect of various transactions involving capital assets (i.e., sales, donations, insurance and trade-ins) is to increase net position.	286,286
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(58,088)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	<u>(39,989)</u>
Change in net position of governmental activities	<u>\$ 539,023</u>

CARBON COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	External Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 6,352,922	\$ 149,697
Investments	3,995,964	-
Taxes and assessments receivable	-	996,993
 Total assets	 10,348,886	 \$ 1,146,690
LIABILITIES		
Due to special districts	-	\$ 72,714
Due to state	-	76,102
Due to schools	-	772,215
Due to cities/towns	-	225,659
 Total liabilities	 -	 \$ 1,146,690
NET POSITION		
Held in trust for external investment pool participants	\$ 10,348,886	

CARBON COUNTY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>External Investment Trust Fund</u>
ADDITIONS	
Contributions	<u>\$ 2,078,368</u>
Investment earnings:	
Interest	<u>51,994</u>
Total net investment earnings	<u>51,994</u>
Total additions	<u>2,130,362</u>
DEDUCTIONS	
Distributions to participants	<u>1,757,749</u>
Total deductions	<u>1,757,749</u>
Change in net assets	372,613
Net position - beginning	<u>9,976,273</u>
Net position - ending	<u><u>\$ 10,348,886</u></u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The government's significant accounting policies are described below.

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

The government reports the following major governmental funds:

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

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

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

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

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

Additionally, the government reports the following fund types:

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

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

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

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

School districts and other legally separate districts within the County hold their funds with the County Treasurer. The districts have, at their option, elected to participate in the County's investment pool. 64 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.

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Receivables

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

Inventories

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 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.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	30
Building and improvements	15-155
Machinery and equipment	5-39

Collections Not Capitalized

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

Compensated Absences

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

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

Long-term Obligations

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

Deferred Inflows of Resources

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Net Position

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

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

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

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

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

Fund Balance

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

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

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

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

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

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

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

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

Use of Estimates

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

NOTE 2. DETAILED NOTES ON ALL FUNDS

Cash and Cash Equivalents and Investments

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

Governmental activities	\$ 5,580,808
Fiduciary funds	<u>10,498,583</u>
	<u>\$ 16,079,391</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Total carrying value of cash, cash equivalents and investments as of June 30, 2014, consisted of the following:

	Cash/Cash Equivalents	Investments	Total
Cash on hand	\$ 2,000	\$ -	\$ 2,000
Cash in banks:			
Demand deposits	6,660,167	-	6,660,167
Time deposits	-	4,450,853	4,450,853
Savings deposits	566,322	-	566,322
Brokers:			
U.S. Government securities	-	1,700,000	1,700,000
Repurchase agreement	308,606	-	308,606
Short-term Investment Program (STIP)	2,391,443	-	2,391,443
	\$ 9,928,538	\$ 6,150,853	\$ 16,079,391

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, 2014, \$7,672,072 of the government's bank balance of \$12,630,866 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	\$ 7,672,072
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State statutes require that the government obtain securities for the uninsured portion of deposits as follows: 1.) securities equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more, or 2.) 100% if the ratio of net worth to total assets is less than 6%. State statutes do not specify in whose custody or name the collateral is to be held. The amount of collateral held for the government's deposits as of June 30, 2014, exceeded the amount required by state statute.

The investment pool portfolio as of June 30, 2014 is listed below. The security type percentage is based on the book value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value (1)	% of Total
U.S. Government securities	.6-1.00%	Various	\$ 1,700,000	\$ 1,700,000	\$ 1,689,259	27.64%
Time deposits	.4-1.50%	Various	4,450,000	4,450,853	4,432,761	72.36%
				\$ 6,150,853	\$ 6,122,020	

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

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

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

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

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
U.S. Government securities	\$ 500,000	\$ -	\$ 1,200,000	\$ 1,700,000	\$ 1,689,259
Repurchase agreement	-	-	308,606	308,606	308,606
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 1,508,606</u>	2,008,606	1,997,865
Uncategorized: STIP				<u>2,391,443</u>	<u>2,391,443</u>
				<u>\$ 4,400,049</u>	<u>\$ 4,389,308</u>

Following is the condensed schedule of changes in net position for the investment pool for the year ended June 30, 2014:

	Internal	External	Total
Net position - beginning of year	\$ 6,391,185	\$ 9,976,273	\$ 16,367,458
Contributions from participants	1,297,558	2,078,368	3,375,926
Investment earnings	34,894	51,994	86,888
Distributions to participants	(1,993,132)	(1,757,749)	(3,750,881)
Net position - end of year	<u>\$ 5,730,505</u>	<u>\$ 10,348,886</u>	<u>\$ 16,079,391</u>

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 113,377	\$ 67,200	\$ -	\$ 180,577
Construction-in-progress	54,384	444,701	(19,286)	479,799
Total capital assets, not being depreciated	<u>167,761</u>	<u>511,901</u>	<u>(19,286)</u>	<u>660,376</u>
Capital assets, being depreciated				
Buildings/improvements	3,524,458	195,877	-	3,720,335
Machinery and equipment	6,825,143	985,904	(233,520)	7,577,527
Infrastructure	3,338,649	733,139	-	4,071,788
Total capital assets, being depreciated	<u>13,688,250</u>	<u>1,914,920</u>	<u>(233,520)</u>	<u>15,369,650</u>
Less accumulated depreciation for:				
Buildings/improvements	(912,837)	(96,597)	-	(1,009,434)
Machinery and equipment	(3,724,114)	(595,786)	205,440	(4,114,460)
Infrastructure	(533,180)	(119,216)	-	(652,396)
Total accumulated depreciation	<u>(5,170,131)</u>	<u>(811,599)</u>	<u>205,440</u>	<u>(5,776,290)</u>
Total capital assets, being depreciated, net	<u>8,518,119</u>	<u>1,103,321</u>	<u>(28,080)</u>	<u>9,593,360</u>
Capital assets, net	<u>\$ 8,685,880</u>	<u>\$ 1,615,222</u>	<u>\$ (47,366)</u>	<u>\$ 10,253,736</u>

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense was charged as follows:

General government	\$ 106,010
Public safety	134,285
Public works	561,248
Social and economic services	1,356
Culture and recreation	8,700
	\$ 811,599
Total depreciation	\$ 811,599

Transfers

Interfund transfers consisted of the following:

	Transfers In	Transfers Out	Total
Road	\$ 353,700	\$ -	\$ 353,700
Bridge	726,840	-	726,840
Public Safety	279,000	-	279,000
Nonmajor governmental funds	368,570	(1,728,110)	(1,359,540)
	\$ 1,728,110	\$ (1,728,110)	\$ -

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

Operating Leases

The government leases phone equipment under a non-cancelable operating lease. Total rental expenses for operating leases were \$18,292 for the year ended June 30, 2014. Scheduled minimum rental payments for succeeding years ending June 30, are as follows:

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

Long-Term Debt

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Compensated absences	\$ 518,333	\$ 39,989	\$ -	\$ 558,322	\$ 55,832

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

NOTE 3. OTHER INFORMATION

Risk Management

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

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

commercial insurance coverage in any of the past three fiscal years. Given lack of coverage available, the government has no coverage for potential losses from environmental damages.

Jointly Governed Organization

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

Contingencies

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

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

Retirement Plans

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

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	8.070%	7.900%	15.970%

PERS:
On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .1% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana contribution has not been recorded in the financial statements.

The amounts contributed to the plans during the years ended June 30, 2014, 2013 and 2012 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:

	2014	2013	2012
SRS	\$ 106,870	\$ 102,007	\$ 96,719
PERS	427,199	365,888	350,433
	\$ 534,069	\$ 467,895	\$ 447,152

CARBON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

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

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

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, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Taxes/assessments	\$ 1,430,515	\$ 1,430,515	\$ 1,482,359
Fines and forfeitures	71,100	71,100	62,328
Licenses and permits	13,000	13,000	18,960
Intergovernmental	220,307	250,307	235,694
Charges for services	192,923	192,923	195,718
Investment earnings	35,000	35,000	29,912
Miscellaneous	19,000	19,000	38,029
Total revenues	<u>1,981,845</u>	<u>2,011,845</u>	<u>2,063,000</u>
EXPENDITURES			
Current:			
General government	2,281,170	2,311,170	2,011,687
Public safety	124,140	124,140	89,474
Public works	20,000	20,000	6,371
Public health	86,180	86,180	87,796
Social and economic services	50,492	50,492	44,347
Culture and recreation	-	-	1,128
Other current charges	138,000	138,000	123,136
Capital outlay	<u>279,205</u>	<u>279,205</u>	<u>293,355</u>
Total expenditures	<u>2,979,187</u>	<u>3,009,187</u>	<u>2,657,294</u>
Net change in fund balance	<u>\$ (997,342)</u>	<u>\$ (997,342)</u>	(594,294)
Fund balance - beginning			<u>1,989,188</u>
Fund balance - ending			<u>\$ 1,394,894</u>

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

Road Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$ 1,097,230	\$ 1,097,230	\$ 1,089,796
Licenses and permits	1,600	1,600	900
Intergovernmental	337,284	337,284	300,553
Charges for services	300	300	970
Investment earnings	4,800	4,800	4,332
Miscellaneous	6,000	6,000	22,055
Total revenues	<u>1,447,214</u>	<u>1,447,214</u>	<u>1,418,606</u>
EXPENDITURES			
Current:			
Public works	1,831,255	1,831,255	1,652,197
Capital outlay	436,000	436,000	466,946
Total expenditures	<u>2,267,255</u>	<u>2,267,255</u>	<u>2,119,143</u>
Excess (deficiency) of revenues over expenditures	<u>(820,041)</u>	<u>(820,041)</u>	<u>(700,537)</u>
OTHER FINANCING SOURCES			
Transfers in	358,700	358,700	353,700
Total other financing sources	<u>358,700</u>	<u>358,700</u>	<u>353,700</u>
Net change in fund balance	<u>\$ (461,341)</u>	<u>\$ (461,341)</u>	<u>(346,837)</u>
Fund balance - beginning			<u>1,350,501</u>
Fund balance - ending			<u>\$ 1,003,664</u>

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Bridge Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$ 571,214	\$ 571,214	\$ 572,642
Intergovernmental	471,167	471,167	311,594
Charges for services	4,000	4,000	1,138
Miscellaneous	2,000	2,000	700
Total revenues	<u>1,048,381</u>	<u>1,048,381</u>	<u>886,074</u>
EXPENDITURES			
Current:			
Public works	968,055	968,055	896,691
Capital outlay	942,065	942,065	713,853
Total expenditures	<u>1,910,120</u>	<u>1,910,120</u>	<u>1,610,544</u>
Excess (deficiency) of revenues over expenditures	<u>(861,739)</u>	<u>(861,739)</u>	<u>(724,470)</u>
OTHER FINANCING SOURCES			
Transfers in	728,840	728,840	726,840
Total other financing sources	<u>728,840</u>	<u>728,840</u>	<u>726,840</u>
Net change in fund balance	<u>\$ (132,899)</u>	<u>\$ (132,899)</u>	2,370
Fund balance - beginning			<u>672,659</u>
Fund balance - ending			<u>\$ 675,029</u>

CARBON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Public Safety Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Taxes/assessments	\$ 1,146,391	\$ 1,146,391	\$ 1,149,039
Licenses and permits	4,600	4,600	7,320
Intergovernmental	223,885	223,885	176,436
Charges for services	45,296	45,296	40,433
Miscellaneous	6,500	6,500	6,894
Total revenues	<u>1,426,672</u>	<u>1,426,672</u>	<u>1,380,122</u>
EXPENDITURES			
Current:			
Public safety	1,762,283	1,762,283	1,554,408
Capital outlay	75,000	75,000	76,247
Total expenditures	<u>1,837,283</u>	<u>1,837,283</u>	<u>1,630,655</u>
Excess (deficiency) of revenues over expenditures	<u>(410,611)</u>	<u>(410,611)</u>	<u>(250,533)</u>
OTHER FINANCING SOURCES			
Sale of capital assets	-	-	8,255
Transfers in	284,500	284,500	279,000
Total other financing sources	<u>284,500</u>	<u>284,500</u>	<u>287,255</u>
Net change in fund balance	<u>\$ (126,111)</u>	<u>\$ (126,111)</u>	36,722
Fund balance - beginning			<u>788,311</u>
Fund balance - ending			<u>\$ 825,033</u>

CARBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

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 first Thursday after the first Tuesday in September or within 30 calendar days of receiving certified taxable values from the department of revenue, after holding public hearings as required by state statute. Budgeted fund expenditures/expenses are limited by state law to budgeted amounts. Budgets may be amended for circumstances described by state law. The budgeted amounts as shown in the financial statements are as originally adopted or as revised by legal budget transfers and amendments, if applicable. All appropriations, except for construction-in-progress, lapse at year-end. The government does not utilize a formal encumbrance accounting system.

OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon County, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated May 11, 2015. 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.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 through 2014-003)

Compliance and Other Matters

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

The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. 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.

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

Purpose of this Report

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

O'ness & Associates, PC

Billings, Montana
May 11, 2015

CARBON COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

2014-002. 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, 2014.

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

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

2014-003. 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.

CARBON COUNTY
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-3. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE