

FERGUS COUNTY  
LEWISTOWN, MONTANA  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006

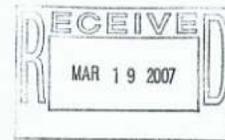


**OLNESS & ASSOCIATES, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

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TABLE OF CONTENTS		Page No.
ORGANIZATION .....		1
DEPENDENT AUDITOR'S REPORT .....		2
REQUIRED SUPPLEMENTARY INFORMATION:		
Management's Discussion & Analysis .....		3
BASIC FINANCIAL STATEMENTS:		
Government-wide Financial Statements:		
Statement of Net Assets .....		7
Statement of Activities .....		8
Fund Financial Statements:		
Balance Sheet - Governmental Funds .....		9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....		10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....		11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....		12
Statement of Fund Net Assets - Proprietary Funds .....		13
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds .....		14
Statement of Cash Flows - Proprietary Funds .....		15
Statement of Fiduciary Net Assets - Fiduciary Funds .....		16
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund .....		17
Notes to Basic Financial Statements .....		18
REQUIRED SUPPLEMENTARY INFORMATION:		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:		
General Fund .....		30
Road Fund .....		31
PILT Fund .....		32
Notes to Required Supplementary Information .....		33
OTHER SUPPLEMENTARY INFORMATION:		
Schedule of Expenditures of Federal Awards .....		34
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....		36
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 .....		37
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....		38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....		41
PRIOR YEAR AUDIT FINDINGS - FINANCIAL STATEMENT AUDIT .....		42

FERGUS COUNTY	
<u>ORGANIZATION</u>	
June 30, 2006	
<u>BOARD OF COUNTY COMMISSIONERS</u>	
Carl Seilstad	Chairman
Ken Ronish	Commissioner
John Jensen	Commissioner
 <u>COUNTY OFFICIALS</u>	
Thomas Meissner	Attorney
Kathy A. Fleharty	Clerk and Recorder
Phyllis Smith	Clerk of Court
Richard Brown	Coroner
Jack Shields	Justice of the Peace
Steven M. Swintkowski	Public Administrator
Thomas Killham	Sheriff
Shirley M. Barrick	Superintendent of Schools
Dolores R. Sramek	Treasurer

## OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

BRENT D. OLNESS, CPA  
COURT D. WYSS, CPA

ERNEST J. OLNESS, CPA

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### INDEPENDENT AUDITOR'S REPORT

to the Board of County Commissioners  
Fergus County  
Lewistown, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of Fergus County, Montana (the government) as of and for the year ended June 30, 2006, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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, road fund and aggregate remaining fund information, 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, road fund and aggregate remaining fund information of the government, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, excluding the road fund, for the government, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2006, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Olness & Associates, PC*  
December 7, 2006

## FERGUS COUNTY MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of Fergus County's financial performance provides an overview of the financial activities for the year ended June 30, 2006. Please read it in conjunction with our financial statements.

### FINANCIAL HIGHLIGHTS

Net assets for Fergus County increased \$617,944 over the prior year.

→ Net assets for governmental activities increased by \$651,221, or 5.45%. The increase was mainly due to the gain on disposal of capital assets, the property tax inflation adjustment under Section 15-10-420, MCA and a better return on investments. Additionally, the counties of Judith Basin and Petroleum left the Tri-County 911 center (included in Fergus County's 911 fund) and transferred their proportionate share of enhanced 911 funds to the City of Lewistown's Central Montana 911. \$186,666 was transferred for each entity.

→ Net assets for business-type activities decreased \$33,277 or 1.37%.

General fund expenditures in fiscal year 2006 were approximately \$181,000 higher than fiscal year 2005. The increase was due to increases in salaries and purchases within the sheriff's department for a patrol vehicle with the necessary lights and safety features and high-grade computerized fingerprinting system including cameras, and new computers with upgraded software. High fuel prices had a significant impact on the entire county. Revenues collected in fiscal year 2006 exceeded fiscal year 2005 by \$87,000. Increased revenues in the general fund were responsible for \$49,000.

Conservative spending contributed to only 80% of the spending authority for all funds in the county being used. Keeping the tax rate reasonable and affordable and having reasonable budgeting expectations led to 100% of the budgeted revenues being collected. Tax revenue as remained relatively stable over the last two years.

### DISCUSSING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and comparisons. Activities of Fergus County as a whole are presented in both long-term and short-term views. Consolidated and individual statements are included to give both the "big picture" and to contribute to it. There is also information about activities for which the County acts strictly as a trustee or agent. While some of the comparisons and statements may appear "obvious" to some readers, the data presented is intended to help both the "expert" and the "lay person" understand the status of the financial standing of Fergus County. It is also intended that this report be of use to Fergus County officials in future budgeting and planning processes.

### OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements – One of the basic reasons for financial statements is to determine the financial health of the government. The Statement of Net Assets and the Statement of Activities (pages 7 and 8) report information about the government 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 revenues and expenses are taken into account regardless of when cash is received or paid. In the Statement of Net Assets and the Statement of Activities, our government is divided into two kinds of activities.

**Governmental Activities** – Basic services are reported here, including but not limited to the sheriff department, road and brick departments, weed department, family planning, health district, and general administration.

**Business-type Activities** - Fees charged to customers to help cover all or most of the services the business-type activity provides are reported here. In Fergus County this includes the airport and the hospital.

FERGUS COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

The following net assets and changes in net assets schedules provide summaries of the county's governmental and business-type activities.

NET ASSETS:	Governmental Activities		Business-type Activities		Total	
	2006	2005	2005	2005	2006	2005
Current and other assets	\$ 6,316,940	\$ 5,894,222	\$ 2,778,993	\$ 2,976,839	\$ 9,095,933	\$ 8,871,1
Capital assets	4,862,915	4,579,620	1,687,301	1,704,330	6,550,216	6,283,1
<b>Total assets</b>	<b>11,179,855</b>	<b>10,473,842</b>	<b>4,466,294</b>	<b>4,681,169</b>	<b>15,646,149</b>	<b>15,155,</b>
Other liabilities	69,485	119,824	1,142,053	1,152,434	1,211,518	1,272,
Long-term liabilities outstanding	372,838	240,381	1,534,080	1,705,297	1,906,918	1,945,
<b>Total liabilities</b>	<b>442,303</b>	<b>360,205</b>	<b>2,676,133</b>	<b>2,857,731</b>	<b>3,118,436</b>	<b>3,217,</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	4,763,481	4,562,397	1,687,301	1,680,415	6,450,782	6,242,
Restricted	335,868	332,611	-	-	335,868	332,
Unrestricted	5,638,203	5,218,629	102,860	143,023	5,741,063	5,361,
	<b>\$ 10,737,552</b>	<b>\$ 10,113,637</b>	<b>\$ 1,790,161</b>	<b>\$ 1,823,438</b>	<b>\$ 12,527,713</b>	<b>\$ 11,837,</b>

A comparison of changes in net assets over time can serve as an indicator of a government's financial position and stability. In fiscal year 2006, Fergus County's total assets exceeded liabilities by \$12,527,713. The totals of the governmental and business-type activities show an increase of 3% for total assets, a decrease of 3 percent for total liabilities, and an increase of 5% for total net assets.

CHANGE IN NET ASSETS:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,392,106	\$ 1,052,531	\$ 157,556	\$ 158,976	\$ 1,549,662	\$ 1,211
Operating grants and contributions	902,367	962,170	-	-	902,367	962
Capital grants and contributions	30,000	216,110	257,591	287,968	287,591	504
General revenues:						
Taxes	2,965,643	2,734,079	-	-	2,965,643	2,734
Licenses and permits	1,140	800	-	-	1,140	-
Intergovernmental	999,048	984,631	-	-	999,046	984
Interest	189,901	86,660	69,480	73,813	259,381	150
Miscellaneous	65,614	59,119	-	-	65,614	55
Insurance recoveries	3,617	24,258	-	-	3,617	24
Gain on disposal of capital assets	491,292	319,930	-	-	491,292	315
<b>Total revenues</b>	<b>7,040,726</b>	<b>6,440,268</b>	<b>484,627</b>	<b>520,757</b>	<b>7,525,353</b>	<b>6,961</b>

FERGUS COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET ASSETS:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Expenses:</b>						
General government	1,421,810	1,348,363	-	-	1,421,810	1,348,
Public safety	1,443,856	1,360,170	-	-	1,443,856	1,360,
Public works	1,899,335	1,754,296	-	-	1,899,335	1,754,
Public health	667,230	567,686	-	-	667,230	567,
Social and economic services	146,727	149,902	-	-	146,727	149,
Culture and recreation	467,625	478,284	-	-	467,625	478,
Housing and community development	8,304	8,131	-	-	8,304	8,
Hospital/nursing home	-	-	65,125	71,239	65,125	71,
Airport	-	-	412,779	387,000	412,779	387,
Interest on long-term debt	1,286	14,316	-	-	1,286	14,
<b>Total expenses</b>	<b>6,056,173</b>	<b>5,681,128</b>	<b>477,904</b>	<b>458,239</b>	<b>6,534,077</b>	<b>6,139,</b>
Change in net assets before transfers and extraordinary item	984,553	759,160	6,723	62,518	991,276	821,
Transfers	40,000	40,000	(40,000)	(40,000)	-	-
Extraordinary item: E911 funds-Central Montana 911	(373,332)	-	-	-	(373,332)	-
<b>Change in net assets</b>	<b>651,221</b>	<b>799,160</b>	<b>(33,277)</b>	<b>22,518</b>	<b>617,944</b>	<b>821,</b>
Net assets, beginning	10,113,637	9,281,142	1,823,438	1,800,920	11,937,075	11,062,
Prior period adjustments	(27,306)	33,335	-	-	(27,306)	33,
<b>Net assets, ending</b>	<b>\$ 10,737,552</b>	<b>\$ 10,113,637</b>	<b>\$ 1,790,161</b>	<b>\$ 1,823,438</b>	<b>\$ 12,527,713</b>	<b>\$ 11,837,</b>

Net assets for governmental activities increased by \$651,221, or 6.45%. The increase was mainly due to the gain on disposal of capital assets, the property tax inflation adjustment under Section 15-10-420, MCA and a better return on investments. Additionally, counties of Judith Basin and Petroleum left the Tri-County 911 center (included in Fergus County's 911 fund) and transferred their proportionate share of enhanced 911 funds to the City of Lewistown's Central Montana 911. \$186,666 was transferred for each entity.

Net assets for business-type activities decreased \$33,277 or 1.37%.

FUND FINANCIAL STATEMENTS

Information regarding the major (most significant) funds is on the fund financial statements (pages 9-15). Major funds must meet the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or enterprise funds).

The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental enterprise funds combined.

**General fund** – The overall fund balance for the general fund increased \$106,925 from fiscal year 2005 to fiscal year 2006. This 1% increase. Key factors for this were an increase of \$30,522 in property and option taxes, a decrease of \$11,839 for charges for services and an increase of \$71,533 for investment earnings. We had an increase for personnel expenses in the financial services area, which was primarily a staff replacement that had gone unfilled for several months. Election (general election), law enforcement (capital purchases) and jail (medical costs) expenses were also up over the prior year.

During 2006, the General fund budget was amended for various federal and state grants.

**Road fund** – The overall fund balance for the road fund increased \$131,531 in fiscal year 2006, which is mainly due to charges for services revenue related to the Cottonwood road/bridge project and auction proceeds.

**PILT Fund** – the overall fund balance for the PILT fund increased \$54,005. We are attempting to build up reserves within this fund.

**Airport Fund** – The airport had a major project in fiscal year 2006 which was almost entirely grant funded.

FERGUS COUNTY  
MANAGEMENT'S DISCUSSION & ANALYSIS

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The major capital asset activity for fiscal year included:

- Purchase of a 2002 GMC Pickup for the Sheriff's Department along with the necessary safety features;
- Purchase of a computerized fingerprinting system with cameras and the other required paraphernalia;
- Payments on three road graders;
- 2006 Ford Pickup for the Weed Department;
- 2006 Honda 4WD for the Central Montana Health District;
- Kyocera copier for the Extension Office;
- New roof for the Trade Center at the Central Montana Fairgrounds.

See the notes to the basic financial statements for information related to long-term debt for governmental and business-type activities

**THE GOVERNMENT'S FUTURE**

Fergus County has been inundated with new subdivisions being planned and developed. Many "opinions" are that the Lewistown area has been "discovered". We are seeing higher priced houses going up in some of the subdivisions, and there appears to be a large amount of interest in promoting our beautiful scenic County.

We have building activity planned at the airport and are continually working on major road and bridge projects. The Emergency Preparedness and Central Montana Health District continue to grow and receive grants, which help the overall picture for Fergus County. The Central Montana Tobacco Use Prevention Program was started in conjunction with Emergency Preparedness during FY2006 and has been a very positive program for the County.

The Fergus County voters approved a 6-mill levy for major improvements at the fairgrounds. Hopefully this will bring more activities to the fairgrounds and help alleviate the cash flow problems it has faced for the past couple of years.

Some other things that have a potential impact on the future of Fergus County at this point are:

- The proposal of a library district which would possibly include a request for increased mills.
- A Methamphetamine treatment center is being built by private enterprise at the airport. This should have a major impact on many facets of the County, including tax base and good paying jobs.
- We continue to have grants for improvements and construction at the airport.
- We anticipate the purchase of three road department trucks and a pickup for the weed department, and a pickup for the planning department in the next fiscal year.
- We will have a new Disaster and Emergency Services Director, which will bring more grant monies and training to the County.
- The jail is in need of improvements such as an exercise yard. There is a committee that meets to work on this area to keep the County up to standard.

FERGUS COUNTY  
STATEMENT OF NET ASSETS  
June 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents	\$ 2,330,496	\$ 49,348	\$ 2,379,844
Investments	3,487,916	87,944	3,555,860
Receivables:			
Taxes and assessments	192,562	-	192,562
Governments	27,421	2,354	29,775
Roundhouse road	19,852	-	19,852
Auction sale	47,966	-	47,966
Valentine road	25,483	-	25,483
Port authority	10,000	-	10,000
Other	14,031	-	14,031
Inventories	154,263	-	154,263
Restricted assets:			
Cash and equivalents	-	455,068	455,068
Investments	-	686,985	686,985
Net investment in capital lease	-	1,517,294	1,517,294
Prepaid expenses	6,950	-	6,950
Capital assets:			
Land	55,187	13,261	68,448
Depreciable capital assets, net	4,807,728	1,674,040	6,481,768
<b>Total assets</b>	<b>11,179,855</b>	<b>4,466,294</b>	<b>15,646,149</b>
<b>LIABILITIES</b>			
Accounts payable-vendors	34,349	-	34,349
Due to Central Montana Medical Center	-	1,142,063	1,142,063
Deferred revenue	35,116	-	35,116
Long-term liabilities:			
Due within one year:			
Notes and capital leases	99,434	165,378	264,812
Compensated absences	27,340	854	28,194
Due in more than one year:			
Notes and capital leases	-	1,360,166	1,360,166
Compensated absences	246,064	7,882	253,746
<b>Total liabilities</b>	<b>442,303</b>	<b>2,676,133</b>	<b>3,118,436</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,763,481	1,667,301	6,450,782
Restricted for:			
Hard rock mine	107,793	-	107,793
Metal mines tax	88,657	-	88,657
Road and street services	159,418	-	159,418
Unrestricted	5,636,203	102,860	5,741,063
<b>Total net assets</b>	<b>\$ 10,737,552</b>	<b>\$ 1,790,161</b>	<b>\$ 12,527,713</b>

See notes to basic financial statements.

FERGUS COUNTY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		Tot
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,421,810	\$ 138,484	\$ 12,049	\$ -	\$ (1,271,277)	\$ -	\$ (1,27
Public safety	1,443,856	124,986	457,836	-	(961,034)	-	(86
Public works	1,899,335	495,968	167,008	-	(1,236,359)	-	(1,23
Public health	667,230	233,480	259,801	-	(173,949)	-	(17
Social and economic services	146,727	-	-	-	(146,727)	-	(14
Culture and recreation	467,525	270,660	5,573	30,000	(161,292)	-	(16
Housing and community development	8,304	128,528	-	-	120,224	-	12
Interest on long-term debt	1,286	-	-	-	(1,286)	-	(1
Total governmental activities	6,056,173	1,362,106	902,367	30,000	(3,731,700)	-	(3,7
Business-type activities:							
Hospital	65,125	-	-	-	-	(65,125)	(6
Airport	412,779	157,556	-	257,591	-	2,368	2,3
Total business-type activities	477,904	157,556	-	257,591	-	(62,757)	(6
Total	\$ 6,534,077	\$ 1,549,662	\$ 902,367	\$ 287,591	(3,731,700)	(62,757)	(3,7
General revenues:							
Property taxes					2,965,643	-	2,9
Licenses and permits					1,140	-	1
Intergovernmental					999,046	-	9
Unrestricted investment earnings					189,901	68,480	2
Miscellaneous					65,614	-	6
Insurance recoveries					3,617	-	3
Gain on disposal of capital assets					491,292	-	4
Transfers					40,000	(40,000)	-
Total general revenues and transfers					4,756,253	29,480	4,7
Excess (deficiency) before extraordinary item					1,024,553	(33,277)	\$
Extraordinary item: resources transferred to the Central Montana 911					(373,332)	-	(3
Change in net assets					651,221	(33,277)	€
Net assets - beginning					10,113,637	1,823,438	11,9
Prior period adjustments					(27,306)	-	-
Net assets - ending					\$ 10,737,552	\$ 1,790,161	\$ 12,1

See notes to basic financial statements.

8

FERGUS COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Road	PILT	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 444,632	\$ 115,420	\$ 342,284	\$ 1,034,680	\$ 1,937,016
Investments	665,454	172,742	512,276	1,548,544	2,898,016
Receivables:					
Taxes and assessments	82,254	24,920	-	85,388	192,562
Governments	3,263	-	-	24,158	27,421
Roundhouse road	-	-	-	19,852	19,852
Acution sale	-	47,966	-	-	47,966
Valentine road	-	25,483	-	-	25,483
Port authority	-	-	-	10,000	10,000
Other	6,092	-	-	7,939	14,031
Due from other funds	-	-	-	74,428	74,428
Inventories	-	18,165	-	138,098	156,263
Prepaid expenditures	-	-	-	6,950	6,950
Total assets	\$ 1,201,695	\$ 402,696	\$ 854,560	\$ 2,950,037	\$ 5,408,988
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable-vendors	\$ 10,326	\$ 1,440	\$ -	\$ 16,205	\$ 27,971
Due to other funds	-	-	-	74,428	74,428
Deferred revenue	82,254	24,920	-	150,356	257,530
Total liabilities	92,580	26,360	-	240,989	359,929
Fund balances:					
Reserved for:				6,950	6,950
Prepaid expenditures	-	-	-	-	-
Unreserved	1,109,115	376,336	854,560	-	2,340,011
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	2,172,426	2,172,426
Capital projects funds	-	-	-	529,672	529,672
Total fund balances	1,109,115	376,336	854,560	2,709,048	5,049,059
Total liabilities and fund balances	\$ 1,201,695	\$ 402,696	\$ 854,560	\$ 2,950,037	\$ 5,408,988

See notes to basic financial statements.

9

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

Total fund balance, governmental funds	\$ 5,049,059
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 fund financial statements, but are reported in the governmental activities of the statement of net assets.	4,862,915
Certain other long-term assets are not available to pay current period expenditures and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets.	222,414
The assets and liabilities of the self-insurance fund (internal service) are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets.	976,002
Some liabilities (such as notes payable, capital leases payable and compensated absences) are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the statement of net assets.	<u>(372,838)</u>
Net assets of governmental activities	<u>\$ 10,737,552</u>

See notes to basic financial statements.

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

	Custodial Credit Risk Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	\$ -	\$ -	\$ 1,575,252	\$ 1,575,252	\$ 1,575,252
U.S. Government securities	994,716	-	5,200,000	6,194,716	6,165,816
	<u>\$ 994,716</u>	<u>\$ -</u>	<u>\$ 6,775,252</u>	7,769,968	7,741,068
STIP				<u>3,200,000</u>	<u>3,200,000</u>
				<u>\$10,969,968</u>	<u>\$10,941,068</u>

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

	Internal	External	Total
Net assets - beginning of year	\$ 7,624,186	\$ 9,628,738	\$ 17,252,924
Contributions from participants	9,705,430	12,029,147	21,734,577
Investment earnings	243,929	264,799	508,728
Administration expenses	(4,877)	(5,295)	(10,172)
Distributions to participants	(9,470,537)	(12,487,542)	(21,958,079)
Net assets - end of year	<u>\$ 8,098,131</u>	<u>\$ 9,429,847</u>	<u>\$ 17,527,978</u>

Net Investment in Capital Lease

The County entered into a lease agreement with Central Montana Medical Facilities, Inc. (CMMF) on April 1, 1989. The County leased land, buildings and equipment to CMMF. The lease is classified as a direct financing lease. The components of net investment in capital lease as of June 30, 2006 are as follows:

	<u>Business-type Activities</u>
Minimum lease payments receivable	\$ 1,788,576
Less: unearned income	<u>(269,282)</u>
	<u>\$ 1,517,294</u>

Future minimum lease payments are as follows:

Year ending June 30,	Business-type Activities		Total
	Principal	Interest	
2007	\$ 164,553	\$ 58,769	\$ 223,322
2008	171,168	52,154	223,322
2009	178,048	45,274	223,322
2010	185,205	38,117	223,322
2011	192,650	30,672	223,322
2012-2014	625,670	44,295	669,965
	<u>\$ 1,517,294</u>	<u>\$ 269,282</u>	<u>\$ 1,786,576</u>

Roundhouse Road Receivable

\$19,062 of the Roundhouse Road receivable is not expected to be collected within one year.

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 55,187	\$ -	\$ -	\$ 55,187
Total capital assets, not being depreciated	55,187	-	-	55,187
Capital assets, being depreciated				
Buildings/improvements	4,527,116	131,042	-	4,658,158
Machinery and equipment	4,420,528	821,059	(960,821)	4,280,766
Total capital assets, being depreciated	8,947,644	952,101	(960,821)	8,938,924
Less accumulated depreciation for:				
Buildings/improvements	(1,533,557)	(122,366)	-	(1,655,943)
Machinery and equipment	(2,889,654)	(520,953)	995,354	(2,415,253)
Total accumulated depreciation	(4,423,211)	(643,319)	995,354	(4,071,169)
Total capital assets, being depreciated, net	4,524,433	308,762	34,533	4,867,728
Governmental activities capital assets, net	\$ 4,579,620	\$ 308,762	\$ 34,533	\$ 4,922,915
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 13,261	\$ -	\$ -	\$ 13,261
Construction-in-progress	36,220	260,887	(297,107)	-
Total capital assets, not being depreciated	49,481	260,887	(297,107)	13,261
Capital assets, being depreciated				
Buildings	73,042	-	-	73,042
Improvements other than buildings	4,102,923	297,107	-	4,400,030
Machinery and equipment	174,446	-	-	174,446
Total capital assets, being depreciated	4,350,411	297,107	-	4,647,518
Less accumulated depreciation for:				
Buildings	(37,124)	(998)	-	(38,122)
Improvements other than buildings	(2,577,614)	(261,314)	-	(2,838,928)
Machinery and equipment	(80,824)	(15,604)	-	(96,428)
Total accumulated depreciation	(2,695,562)	(277,916)	-	(2,973,478)
Total capital assets, being depreciated, net	1,654,849	19,191	-	1,674,040
Business-type activities capital assets, net	\$ 1,704,330	\$ 280,078	\$ (297,107)	\$ 1,687,301

Depreciation expense was charged as follows:

<b>Governmental activities:</b>	
General government	\$ 59,998
Public safety	101,140
Public works	413,297
Public health	3,251
Social and economic	5,407
Culture and recreation	60,248
<b>Total depreciation-governmental activities</b>	<b>\$ 643,339</b>
<b>Business-type activities:</b>	
Airport	\$ 277,916

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Interfund Receivables, Payables and Transfers

The composition of interfund balances (due from/to other funds) as of June 30, 2006, consisted of the Roundhouse Water Line funding the USG Loan fund \$74,428.

Interfund transfers consisted of the following

	Transfers In	Transfers Out	Total
<b>Governmental activities:</b>			
General	\$ 337,364	\$ (36,501)	\$ 300,863
Road	78,044	(75,000)	3,044
Nonmajor governmental funds	459,429	(627,249)	(167,820)
Internal service	-	(96,087)	(96,087)
	\$ 874,837	\$ (834,837)	\$ 40,000
<b>Business-type activities:</b>			
Airport	\$ -	\$ (40,000)	\$ (40,000)

Transfers are made to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Capital Leases

The government has entered into certain capital lease agreements under which the related equipment will become the property of the government when all terms of the lease agreements are met. Assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 23,500
Less: accumulated depreciation	(12,142)
	\$ 11,358

The future minimum lease obligations and the present value of these minimum lease payments as June 30, 2006, were as follows:

	Year ending June 30,	Governmental Activities
	2007	\$ 12,954
Total minimum lease payments		12,954
Less: amount representing interest		(550)
Present value of minimum lease payments		\$ 12,404

Long-Term Debt

During 2004, the County issued a Hospital Revenue Note to payoff the 1993 revenue refunding bonds. The government pledged net payments from the Central Montana Medical Facilities, Inc. (CMMF) lease to pay debt service. If the net rental payments from CMMF become insufficient, the note is backed by the full faith and credit of the County by an ad valorem tax levy upon all taxable property in the County. Notes payable, including the Hospital Revenue Note, are as follows:

	Original Amount	Term	Interest Rate	Payment	Governmental Activities	Business-type Activities
Airport-2006	\$ 8,250	10 yrs	2.50%	Annual	\$ -	\$ 8,250
Road vehicle-2006	5,900	1 yr	7.50%	Annual	5,900	-
3 motor graders-2006	165,531	2 yrs	8.00%	Annual	81,130	-
Hospital Revenue Note	1,980,000	10 yrs	3.98%	Semi-annual	-	1,517,294
					\$ 87,030	\$ 1,525,544

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Annual debt service requirements to maturity for notes payable is as follows:

June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 87,030	\$ 3,717	\$ 90,747	\$ 165,378	\$ 58,914	\$ 224,292
2008	-	-	-	175,293	52,340	227,633
2009	-	-	-	178,873	45,439	224,312
2010	-	-	-	186,030	38,261	224,291
2011	-	-	-	193,475	30,796	224,271
2012-2016	-	-	-	628,495	44,606	673,101
	<u>\$ 87,030</u>	<u>\$ 3,717</u>	<u>\$ 90,747</u>	<u>\$ 1,525,544</u>	<u>\$ 270,356</u>	<u>\$ 1,795,900</u>

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Due Within One Year
<b>Governmental activities:</b>					
Capital leases	\$ 17,223	\$ -	\$ (4,819)	\$ 12,404	\$ 12,404
Notes payable	-	171,431	(84,401)	87,030	87,030
Compensated absences	223,158	50,246	-	273,404	27,340
<b>Governmental activity long-term liabilities</b>	<b>\$ 240,381</b>	<b>\$ 221,677</b>	<b>\$ (89,220)</b>	<b>\$ 372,838</b>	<b>\$ 126,774</b>
<b>Business-type activities:</b>					
Notes payable	\$ 1,699,404	\$ 8,250	\$ (182,110)	\$ 1,525,544	\$ 165,378
Compensated absences	5,893	2,643	-	8,536	854
<b>Business-type activity long-term liabilities</b>	<b>\$ 1,705,297</b>	<b>\$ 10,893</b>	<b>\$ (182,110)</b>	<b>\$ 1,534,080</b>	<b>\$ 166,232</b>

**Indebtedness**

To provide for the construction of improvements to the County-owned hospital, the County issued Healthcare and Boarding Home Revenue Notes amounting to \$525,000 in 2003. These notes are special limited obligations of the County, payable solely for the debt service on the notes, and are secured by a pledge of Central Montana Medical Facilities, Inc. revenues. The notes do not constitute a debt or pledge of the full faith and credit of the County or the State, and accordingly have not been reported in the basic financial statements. As of June 30, 2006, the Healthcare and Boarding Home Revenue Notes outstanding were \$390,368.

**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 deductibles, 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 employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member contributions. In 1990, the Association issued bonds to fund an excess claims payment account. Funding the excess claims payment account enabled the Association to offer participants more desirable workers' compensation rates. There are no deductibles or maximum coverage limits in the plan. The County also participates in MACO's Joint Powers Insurance Authority which offers insurance for other risks of loss. In 2003, the Association issued bonds to fund reserves. 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.

**Self-Insurance Plan**

During the year ended June 30, 2006, employees of the government were covered by a medical self-insurance plan (the "plan"). The government contributed approximately \$614 per month per employee to the plan and employees, at their option, authorized payroll deductions to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the government.

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

An administrative contract between the government and the third party administrator is renewable annually and administrative fees and stop-loss premiums are included in the contractual provisions. The government was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage through Montana Joint Powers Trust (MJPT). Stop-loss coverage was in effect for individual claims exceeding \$25,000 and for aggregate loss, which is based on a factor determined by MJPT. The aggregate stop-loss coverage was \$401,239.

Costs associated with the medical self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues in the internal service fund and as operating expenditures of the governmental and enterprise funds. The liability for the medical self-insurance plan includes incurred but not reported claims. The liability as of June 30, 2006, is based on the requirements of Governmental Accounting Standards No. 10, which requires that a liability for claims be reported if information prior to the issuance of financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability includes an amount for claims that have been incurred but not reported cause actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, and the excess used in computing claims liability does not necessarily result in an exact amount. Changes in the claims liability amount during the years 2006 and 2005 were:

	Liability July 1,	Current Year Claims and Changes in Estimates	Claims Payments	Liability June 30,
2005-06	\$ 11,083	\$ 191,344	\$ (196,049)	\$ 6,378
2004-05	19,263	263,695	(271,876)	11,083

**Period Adjustments**

Period adjustments resulted from recording certain transactions in the incorrect accounting period.

**Extraordinary Item**

During 2006, the counties of Judith Basin and Petroleum left the Tri-County 911 center (included in Fergus County's 911 fund) and transferred their proportionate share of enhanced 911 funds to the City of Lewistown's Central Montana 911. \$186,666 was transferred to each entity.

**Intergovernmental Agreements**

The City of Lewistown and Fergus County entered into an agreement to fund a library for City and County residents. Fergus County contributed 1.05 mills in 2006 for library purposes and contributed \$49,000 for the year ended June 30, 2006. The City maintains the library's accounting records and includes the financial activities of the library in its financial statements.

The City-County Airport is owned and operated jointly by the City of Lewistown and Fergus County. The operation of the airport is managed by the County as an enterprise fund. All fixed assets are recorded within the County's accounting records. The airport is administered by a five-member board, consisting of the City's manager, a City-appointed member, one County commissioner, a County member-at-large and one member-at-large appointed by the Airport Board. The budget is approved by the controlling members. The Airport Board exercises control over the airport's normal operations.

The City of Lewistown and Fergus County entered into an agreement whereby the County provides a justice of the peace who acts as a judge for the City. The City contributes fifty percent of fines and assessments collected or \$24,300, whichever is greater. The County maintains the accounting records and remits a monthly accounting to the City.

**Joint Ventures**

**Central Montana Health District Number 6 (CMHD)**

The CMHD, which was formed September 1987, was created under the provisions of Montana Code Annotated. The District was formed to provide for the salaries of sanitarians. District members make contributions to Fergus County (responsible for record keeping and reporting), based on population.

**South Central Montana Regional Mental Health Center**

The Fergus County Mental Health Center is a satellite office of the South Central Montana Regional Mental Health Center located in Billings, Montana. The County belongs to Region No. 3 which consists of eleven counties. The District was created under the provisions of Montana Code Annotated (MCA). Each County is represented on the Board by one of its county commissioners. Fergus County contributed \$14,254 during fiscal year 2006. The purpose of the Center is to initiate preventive mental health activities for state mental health programs and to perform other duties as listed in MCA.

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

Fergus County Council on Aging

Fergus County Council on Aging is a satellite office of the Area II Agency on Aging (Area II). Eleven counties belong to Area II. Fergus County contributes money to Area II each fiscal year for the purpose of matching federal grants that Area II obtains. During the year ended June 30, 2006 the County contributed \$22,445 for matching purposes.

Subsequent Events

In August 2006, the County issued Hospital Revenue Notes amounting to \$1,500,000 to provide for the construction of improvements at the County-owned hospital. These notes are special limited obligations of the County, payable solely from and secured by a pledge of the County's share of the revenues of Central Montana Medical Facilities, Inc. revenues. The notes do not constitute a debt or pledge of the faith and credit of the County to the State, and accordingly have not been reported in the basic financial statements.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of contracts and purchase orders, of approximately \$112,500, primarily for construction projects and equipment.

Accounts receivable and accounts payable 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 of any disallowances 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 three statewide mandatory cost-sharing multiple employer defined benefit retirement plans which cover its employees. The Teachers' Retirement System (TRS) covers the County Superintendent. 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 employees. The plans are established under State law and are administered by the State of Montana. The plans provide for 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 will have a 12-month window during which they may choose to remain in the current PERS-DBRP or join the PERS-DCRP. Members may not be active members of both 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 will be 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 59623-3131, 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	9.535%	9.245%	18.78%
TRS	7.470%	7.150%	14.62%
PERS	6.80%	6.90%	13.70%

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.

FERGUS COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS

The amounts contributed to the plans during the years ended June 30, 2006, 2005 and 2004 were equal to the required contributions for each year. The amounts contributed by both the government and its employees (including additional voluntary contributions from employees as permitted by State law) were as follows:

	2006	2005	2004
TRS	\$ 4,041	\$ 4,655	\$ 4,550
SRS	60,876	50,380	51,894
PERS	<u>252,844</u>	<u>243,569</u>	<u>238,628</u>
	<u>\$318,561</u>	<u>\$298,604</u>	<u>\$295,072</u>

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

- o Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, which is required to be implemented during fiscal year 2007.
- o Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which is required to be implemented during fiscal year 2008.

These pronouncements will be implemented when required.

REQUIRED SUPPLEMENTARY INFORMATION

FERGUS COUNTY  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 General Fund  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	
<b>REVENUES</b>			
Taxes and assessments	\$1,497,421	\$ 1,497,421	\$ 1,495,475
Fines and forfeitures	84,000	84,000	91,505
Licenses and permits	-	-	1,140
Intergovernmental	121,512	145,512	171,915
Charges for services	218,600	218,600	277,472
Investment earnings	-	-	129,948
Miscellaneous	5,000	5,000	3,114
Total revenues	<u>1,926,533</u>	<u>1,950,533</u>	<u>2,170,569</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,109,837	1,109,637	1,049,490
Public safety	1,303,826	1,309,826	1,125,376
Public health	142,998	142,998	139,822
Social and economic services	8,000	8,000	5,840
Debt service:			
Principal	650	650	4,819
Interest and other charges	125	125	1,286
Capital outlay	50,000	68,000	39,998
Total expenditures	<u>2,615,236</u>	<u>2,639,236</u>	<u>2,366,631</u>
Excess (deficiency) of revenues over expenditures	<u>(688,703)</u>	<u>(688,703)</u>	<u>(196,062)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Insurance recoveries	-	-	2,124
Transfers in	403,472	403,472	337,364
Transfers out	(30,901)	(30,901)	(36,501)
Total other financing sources (uses)	<u>372,571</u>	<u>372,571</u>	<u>302,987</u>
Net change in fund balance	<u>\$ (316,132)</u>	<u>\$ (316,132)</u>	<u>106,925</u>
Fund balance - beginning			1,006,190
Prior period adjustments			(4,000)
Fund balance - ending			<u>\$ 1,109,115</u>

See notes to required supplementary information.

FERGUS COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
Road Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	
<b>REVENUES</b>			
Taxes and assessments	\$ 353,351	\$ 353,351	\$ 348,236
Intergovernmental	640,936	666,420	541,437
Charges for services	1,500	1,500	137,797
Miscellaneous	6,000	6,000	1,170
Total revenues	<u>1,001,787</u>	<u>1,027,271</u>	<u>1,028,640</u>
<b>EXPENDITURES</b>			
Current:			
Public works	894,605	900,594	772,524
Debt service:			
Principal	86,000	86,000	84,401
Capital outlay	60,000	250,926	256,694
Total expenditures	<u>1,040,605</u>	<u>1,237,520</u>	<u>1,113,719</u>
Excess (deficiency) of revenues over expenditures	<u>(38,818)</u>	<u>(210,249)</u>	<u>(85,079)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term debt, net	-	171,431	171,431
Proceeds from sale capital assets	-	-	42,135
Transfers in	121,647	121,647	78,044
Transfers out	-	-	(75,000)
Total other financing sources (uses)	<u>121,647</u>	<u>293,078</u>	<u>216,610</u>
Net change in fund balance	<u>\$ 82,829</u>	<u>\$ 82,829</u>	<u>131,531</u>
Fund balance - beginning			<u>244,805</u>
Fund balance - ending			<u>\$ 376,336</u>

See notes to required supplementary information.

FERGUS COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
PILT Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ -	\$ 61,244
Total revenues	<u>-</u>	<u>-</u>	<u>61,244</u>
<b>EXPENDITURES:</b>			
Current:			
General government	-	7,239	2,239
Public works	-	-	5,000
Total expenditures	<u>-</u>	<u>7,239</u>	<u>7,239</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(7,239)</u>	<u>54,005</u>
<b>OTHER FINANCING USES</b>			
Transfers out	(615,169)	(615,169)	-
Total other financing uses	<u>(615,169)</u>	<u>(615,169)</u>	<u>-</u>
Net change in fund balance	<u>\$ (615,169)</u>	<u>\$ (622,408)</u>	<u>54,005</u>
Fund balance - beginning			<u>800,555</u>
Fund balance - ending			<u>\$ 854,560</u>

See notes to required supplementary information.

FERGUS COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2006

**BUDGETARY INFORMATION**

Budgets are legally required and are prepared for the County's governmental funds. Budgets for the proprietary funds are prepared for management purposes only. The budget for each budgeted fund is formulated on the basis of estimated revenues and expenditures for the ensuing fiscal year. The budgets are prepared on the modified accrual basis of accounting.

A proposed operating budget is submitted to the governing body for the year commencing July 1. Before approval of the final budget, the County must publish a notice stating the budget is available for public inspection and hold a public hearing for the taxpayers. The budget must be adopted by resolution by the later of the second Monday in August or within 45 days of receiving certified taxable values from the Department of Revenue.

Budgets cannot be increased except for (a) a public emergency which could not have been reasonably foreseen at the time of the adoption of the original budget, or (b) funds received from federal or state governments. Budget amendments may be made between and among the general classifications of salaries and wages, operations and maintenance, and capital outlay upon a resolution adopted by the governing body. However, budget transfers cannot increase the salary and wage classification.

All appropriations, except for construction-in-progress, lapse at year-end. The County does not utilize a formal encumbrance accounting system.

For the year ended June 30, 2006, the fair (\$4,214) fund was over spent. Fund balance was not available to fund the overdraft.

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OTHER SUPPLEMENTARY INFORMATION

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FERGUS COUNTY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2006								
Grantor/Pass-through grantor/Program	CFDA Number	Pass-through Grantor Number	Program or Award Amount	Balance July 1, 2005	Receipts	Expenditures/ Disbursements	Returned to Grantor/ Other	Balance June 30
<b>Department of Transportation:</b>								
<b>Program:</b>								
Airport Improvement Program	20.106	DOT-FA09NA-2015	\$ 510,000	\$ -	\$ -	\$ -	\$ -	\$ -
Airport Improvement Program	20.106	DOT-FA09NA-2021	287,000	(34,409)	287,000	247,842	(4,759)	-
Total direct programs				(34,409)	287,000	247,842	(4,759)	-
<b>Pass-through Healthy Mothers, Healthy Babies - the Montana Coalition:</b>								
State and Community Highway Safety and through the Montana Department of Transportation:	20.600	N/A	25,000	(3,812)	15,495	11,883	-	-
State and Community Highway Safety	20.600	2005-13-04-05	8,000	(3,040)	3,040	-	-	-
Total pass-through programs				(6,852)	18,535	11,883	-	-
J.S. Department of Transportation				(41,261)	305,535	259,725	(4,759)	-
<b>Department of Justice:</b>								
<b>Program:</b>								
Juvenile Justice and Delinquency Prevention	16.540	04-219-81785	18,098	440	-	-	(440)	-
National Criminal History Improvement Program	16.554	00-H21-81928	32,380	8,380	24,000	32,380	-	-
Citizen Victim Assistance	16.575	05-V01-81945	38,188	-	25,190	21,288	-	-
U.S. Department of Justice				8,820	49,190	53,668	(440)	-
<b>Department of Health and Human Services:</b>								
<b>Program:</b>								
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-024-0	21,835	12,678	-	-	(12,678)	-
Maternal and Child Health Services	93.994	N/A	1,920	-	1,100	1,500	-	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-024-0	25,873	14,962	-	-	(14,962)	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-025-0	21,827	12,814	-	-	(12,814)	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-026-0	18,530	10,708	-	-	(10,708)	-
Maternal and Child Health Services	93.994	N/A	1,050	-	872	872	-	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-020-0	18,650	18,789	-	-	(18,789)	-
<b>Program:</b>								
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	05-11-3-01-022-0	15,000	-	11,200	14,992	-	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	04-07-4-61-025-0	44,845	25,916	-	-	(25,916)	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	05-07-5-11-023-0	187,760	32,878	93,878	17,857	(108,901)	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	06-07-4-11-014-0	188,616	-	102,638	101,667	-	-
Maternal and Child Health Services	93.994	04-07-5-11-028-0	416	-	416	-	-	-
Maternal and Child Health Services	93.994	05-07-5-01-014-0	12,564	(3,141)	-	-	3,141	-
Maternal and Child Health Services	93.994	06-07-5-01-014-0	12,564	-	12,564	-	-	-
Family Planning Services	93.217	04-07-5-11-028-0	39,848	(792)	33,648	32,888	-	-
Preventive Health Services Block Grant	93.991	04-07-5-11-008-0	2,341	-	2,341	2,341	-	-
Cooperative Agreements for State Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	05-07-3-01-023-0	38,160	(10,836)	8,065	-	1,740	-
Cooperative Agreements for State Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	06-7-3-01-023-0	38,800	-	35,300	33,785	-	-
HIV Prevention Activities-Health Department Based	93.940	05-07-4-61-026-0	4,075	(257)	5,852	5,492	-	-
HIV Prevention Activities-Health Department Based	93.940	08-07-4-61-005-0	4,058	-	1,567	1,178	-	-
Immunization Grants	93.268	05-07-4-31-014-0	4,448	-	-	-	-	-
Immunization Grants	93.268	05-07-4-31-014-0	3,703	(1,653)	3,703	2,050	-	-
U.S. Department of Health and Human Services				109,858	304,134	227,512	(197,678)	-

FERGUS COUNTY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2006								
Grantor/Pass-through grantor/Program	CFDA Number	Pass-through Grantor Number	Program or Award Amount	Balance July 1, 2005	Receipts	Expenditures/ Disbursements	Returned to Grantor/ Other	Balance June 30
<b>Department of Homeland Security:</b>								
<b>Program:</b>								
Community Emergency Response Teams	97.054	2003-FEMA-CERT	10,000	6,826	-	-	(6,826)	-
State Domestic Preparedness Equipment Support Program	97.024	2004-06-14-0002	119,253	(95,951)	108,421	21,828	(842)	-
Emergency Management Performance Grants	97.042	N/A	14,486	-	11,223	14,486	-	-
J.S. Department of Homeland Security				(79,125)	119,644	36,314	(7,468)	-
<b>Department of Agriculture:</b>								
<b>Program:</b>								
Cooperative Forestry Assistance	10.854	04-14-60	20,000	(3,021)	3,372	-	(651)	-
Cooperative Forestry Assistance	10.854	05-14-60	20,000	-	20,000	20,000	-	-
Schools and Roads-Grants to State- Forest Reserve	10.885	N/A	17,842	-	17,842	17,842	-	-
U.S. Department of Agriculture				(3,021)	41,014	37,842	(651)	-
<b>Department of Education:</b>								
<b>Program:</b>								
Safe and Drug-Free Schools and Communities - State Grants	84.186	04-802-81706	15,228	248	-	-	(248)	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	05-802-82033	27,233	-	27,233	27,233	-	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	03-802-81933	851	278	-	-	(275)	-
U.S. Department of Education				526	27,233	27,233	(524)	-
<b>Department of the Interior:</b>								
<b>Program:</b>								
Rafaga Revenue Sharing (1)	15.UNK	N/A	930	-	930	930	-	-
Berkeley Jones Farm Tenant Act (1)	15.UNK	N/A	11,359	-	11,359	11,359	-	-
U.S. Department of the Interior				-	12,289	12,289	-	-
Total federal awards				\$ (4,165)	\$ 859,009	\$ 654,184	\$ (211,210)	\$ -

(1) Not separately identified in the Catalog of Federal Domestic Assistance

Note to Schedule of Expenditures of Federal Awards

5 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 year. This schedule is presented in accordance with grant terms and conditions, which are not the accrual basis of accounting as contemplated by generally accepted accounting principles.

FERGUS COUNTY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

U.S. DEPARTMENT OF HOMELAND SECURITY

- 05-8. State Domestic Preparedness Equipment Support Program, CFDA No. 97.004, Grant No. 2003-MU-T3-0021, Grant period - year ended June 30, 2005

*Condition:* During fiscal year 2005, the county purchased \$98,044 in radios and equipment through the homeland security grant. This purchase was not bid. Grant terms and conditions required the county to follow local procurement law Section 7-5-2301, MCA, requires all purchases in excess of \$50,000 to be bid.

*Recommendation:* The auditors recommended the county develop procurement procedures that will ensure compliance with state statutes.

*Current Status:* We have developed procurement procedures that will ensure compliance with grant terms and conditions regarding procurement.

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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  
Fergus County  
Billings, Montana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fergus County, Montana (the government) as of and for the year ended June 30, 2006, which collectively comprise the government's basic financial statements and have issued our report thereon dated December 7, 2006. The report on the governmental activities, road fund and aggregate remaining fund information was qualified because the government's accounting records related to inventory do not permit adequate retroactive tests of inventory quantities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the government's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the government's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 06-7 through 06-10.

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 governing body, management, 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 any other than these specified parties.

*Wyss & Associates, PC*

December 7, 2006

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

to the Board of County Commissioners  
Fergus County  
Gardiner, Montana

Compliance

We have audited the compliance of Fergus County, Montana (the government) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The government's major federal programs are identified in the summary 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; 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. Our audit includes examining, on a test basis, evidence about the government's compliance with those requirements and performing 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 on the government's compliance with those requirements.

As described in item 06-11, in the accompanying schedule of findings and questioned costs, the government did not comply with requirements regarding allowable costs/costs principles that are applicable to its Centers for Disease Control and Prevention investigations and Technical Assistance program. Compliance with such requirements is necessary. In our opinion, for the government to comply with 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the government is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test our report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the government's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions. Accordingly, we would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

This report is intended solely for the information and use of the governing body, management, 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.

*Olness & Associates, PC*

December 7, 2006

FERGUS COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2006

SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS:

Type of auditor's report issued: qualified

Internal control over financial reporting:

• Material weaknesses identified?  yes  no

• Reportable conditions identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to the basic financial statements noted?  yes  no

FEDERAL AWARDS:

Internal control over financial reporting:

• Material weaknesses identified?  yes  no

• Reportable conditions identified that are not considered to be material weaknesses?  yes  none reported

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

Unqualified: Airport Improvement Program, CFDA No. 20.106

Qualified: Centers for Disease Control and Prevention-Investigations and Technical Assistance, CFDA No. 93.283

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

yes  no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
20.106	Airport Improvement Program
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance

Dollar threshold used to distinguish between type A and type B programs?

\$300,000

Auditee qualified as low-risk auditee?

yes  no

FINDINGS - FINANCIAL STATEMENT AUDIT

- 36-1. Establish a Perpetual Inventory System  
During our audit, we noted materials and supplies inventory items on-hand at year-end that were purchased out of the road and gas tax funds, but recorded in the incorrect funds. As a result, the general ledger balances for inventory were incorrect. To improve internal and accounting controls, we recommend that perpetual inventory records be established for road, bridge and gas tax funds. Once established, perpetual inventory records would provide better accounting control of the flow of goods and increase the possibility of detecting theft or unrecorded shipments.
- 36-2. Self-Insurance Fund Net Assets/Reserves  
Net assets in the self-insurance fund were approximately \$750,000 as of June 30, 2005 and increased to approximately \$975,000 as of June 30, 2006. An actuarial report was issued as of March 30, 2006, that stated the estimated reserve should be \$60,000. Based on that report, it would appear there are excess reserves of approximately \$915,000.  
  
The excess reserve balance occurred mainly for two reasons: 1) the fund's loss experience has been much better than expected and 2) contributions to the fund exceed the maximum risk exposure.  
  
We recommend the County determine an adequate reserve level. The amount at which the specific and aggregate

FERGUS COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2006

losses are set should be used in determining an adequate reserve. The County's 3<sup>rd</sup> party administrator and/or an actua should be contacted for assistance. Once a reserve level is determined, the County should develop and implement a plan th will reduce the reserves to the adequate level.

- 3-3. Improve Fair Budgeting Procedures  
At present, the fair's budgeting procedures provide for the preparation of an annual budget at the beginning of the year. appears that there are not sufficient resources to balance the budget. As of June 30, 2006, the fair fund had a negative ca balance of \$85,402. We recommend the county commissioners, fair board and fair manager develop a plan to adopt i annual budget that is balanced and a plan to eliminate the negative cash balance.
- 3-4. Justice of the Peace  
During our review of the county Justice of the Peace office, we noted the time pay accounting report did not include all of t relevant transactions, such as community service, time served and/or suspensions. We recommend the Justice of the Pea office contact the software vendor and request a software update. Once the software is updated, the report should be print on a monthly basis and reviewed and approved by the Justice of the Peace.
- 3-5. Family Planning  
During our review of the county family planning office, we noted that patient encounter forms or "super bills" are r prenumbered and accounted for. We recommend patient encounter forms or "super bills" be prenumbered and accounted i by the family planning director.
- 3-6. Petty Cash Accounts/Funds  
Petty cash accounts were identified that are not recorded in the general ledger. We recommend the county commissio require all personnel to identify any existing petty cash accounts. Once identified, the petty cash accounts should be record in the general ledger. Further, we recommend petty cash policies and procedures be developed and implemented regardi the disbursement and reimbursement of petty cash funds.
- 3-7. Expenditure Allocation to Bioterrorism Grant  
During our testwork over the county's bioterrorism grant program, we noted that the director and public health nurse's wag were allocated on a percentage basis between the bioterrorism and Montana Tobacco Use and Prevention Program gra However, the county did not have documentation to support the percentage allocations. Allocation of salaries should be bas on time and effort. We recommend salaries charged to the bioterrorism and Montana Tobacco Use and Prevention Progr grants be reviewed and adjusted according to time spent by the director and public health nurse.
- 3-8. Include Personal Use of County Owned Vehicles on Form W 2  
Through inquiry of county personnel, we noted that the employees are allowed to use county owned vehicles. In the ev county-owned vehicles are used for personal use, the personal use should be reported as wages, tips, and oil compensation on the employee's Form W 2. We recommend mileage logs be maintained for the following departme fairgrounds, health district/emergency preparedness, airport, nurse, road supervisor, weed supervisor, planning and extensi The logs should document business and personal use of the vehicle.
- 36-9. Fair Fund Expenditures Exceeded Appropriations  
For the year ended June 30, 2006, expenditures in the fair fund exceeded appropriations by \$4,214. Sections 7-6-4005 i 4008, MCA, state a local government official may not make a disbursement or an expenditure or incur an obligation in ex of the total appropriations for a fund. Money may not be disbursed, expended, or obligated except pursuant to appropriation for which working capital is or will be available. A local government official who violates the preced requirement is liable for the amount of the excess disbursement, expenditure, or obligation personally. The subsequent clai approval process may not be considered as the making of a disbursement or an expenditure or as incurring an obligati does not otherwise limit or mitigate the local government official's personal liability (Section 7-6-4005, MCA).
- 36-10. Commissioner Minutes  
The minutes of the board of county commissioner's meetings did not indicate board approval of all items required by Mont Code Annotated. The minutes must record all orders and decisions made by the board of county commissioners, and substance of all matters proposed, discussed, or decided. (Section 7-5-2128, MCA; and Section 2-3-212, MCA). We recommend the board of county commissioner's minutes contain the substance of all matters proposed, discussed, or decid
- FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
- U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:
- 36-11. Centers for Disease Control and Prevention-Investigations and Technical Assistance, CFDA No. 93.283, Grant No.'s 04-O 61-015-0 and 05-07-6-11-003-0  
  
Finding 06-7 applies to this federal award program.

FERGUS COUNTY  
PRIOR YEAR AUDIT FINDINGS - FINANCIAL STATEMENT AUDIT

<u>Prior Year Audit Findings</u>	<u>Status</u>
-1. Self-insurance Fund Net Assots/Reserves	Not Implemented
-2. Improve Fair Budgeting Procedures	Not Implemented
-3. Justice of the Peace	Not Implemented
-4. Homeland Security Equipment not Bkd	Implemented
-5. Restriction on Use of County Credit	Implemented
-6. HB 124 Floating Mill Levy Calculation	Implemented
-7. Budget	Partially Implemented

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